DOCUMENT RESUME

ED 478 298 HE 036 007

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TITLE	Private Loans and Choice in Financing Higher Education.
INSTITUTION	Institute for Higher Education Policy, Washington, DC.
SPONS AGENCY	Education Resources Inst., Boston, MA.
PUB DATE	2003-07-00
NOTE	117p.; Project partners include: Institute for Higher Education Policy; National Association of Student Financial Aid Administrators (NASFAA); and The Education Resources Institute (TERI).
PUB TYPE	Numerical/Quantitative Data (110) -- Reports - Research (143)
EDRS PRICE	EDRS Price MF01/PC05 Plus Postage.
DESCRIPTORS	*College Students; *Debt (Financial); Higher Education; *Private Financial Support; Student Financial Aid; *Student Loan Programs

ABSTRACT

Private loans also known as private-label loans or alternative loans, have long been part of the student financial aid equation, but are receiving new attention in recent years. Understanding who gets private loans and their reasons for borrowing these loans is critical for policymaking, but little research has been done. This report explores the private loan market, the practices of financial aid offices, and the perceptions of students and parents about private loans. The report explores these issues from various perspectives, drawing on nationally representative data from a variety of sources, including the National Postsecondary Student Aid Study (NPSAS), the Survey of Undergraduate Financial Aid Policies, Practices, and Procedures, data from the College Board and the "Greentree Gazette," and a survey of administrators. Different sources of research data led to the same inescapable conclusion: the use of private loans is a growing part of college financing. Estimates from various sources suggest that total private loan volume is now at least $5 billion to $6 billion per year. The total volume of private loans has now surpassed the amounts awarded annually under the Federal Student Educational Opportunity Grant, Federal Work-Study, and the Perkins Loan Program combined. Nevertheless, private loans still comprise only a small portion, about 10%, of total student loan volume. Overall, only 4% of undergraduates, 3% of graduate students, and 16% of professional students borrowed private loans in 1999-2000. Private loans appear to be facilitating student college choice, although there are a few specific groups of students for which private loans may be contributing to unmanageable loan burdens. Four appendixes contain the framework for the focus group discussions, the Web-based survey form, a description of survey respondents, and detailed tables form the NPSAS. (Contains 17 figures and 28 references.) (SLD)

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Private Loans and Choice in FINANCING HIGHER EDUCATION

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JULY 2003

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Acknowledgments

This report on the role of private loans in higher education financing continues the long-standing TERI/Institute policy report series that has framed key issues in postsecondary education with the most up-to-date information available. The report was prepared by Catherine Wegmann, Research Analyst, and Alisa Cunningham, Director of Research, with guidance from Jamie Merisotis, President, at the Institute for Higher Education Policy. Lawrence O'Toole, President and CEO of TERI, and his associates provided insights and technical assistance. In addition, Tom Wolanin, Melissa Clinedinst, and Christina Redmond from the Institute provided analytic assistance. Loretta Hardge, Director of Communications and Marketing at the Institute, edited and managed the production of the report.

The Institute and TERI would like to thank the individuals and groups who helped shape the report with the information, advice, and feedback they provided. In particular, we would like to thank Kenneth Redd, Director of Research and Policy Analysis at the National Association of Student Financial Aid Administrators (NASFAA), who organized and facilitated the four regional focus groups and conference calls with NASFAA members, along with providing editorial and analytic assistance for the report. The NASFAA Research Committee assisted with arranging regional focus groups and offered feedback during the initial drafting of the report. In addition, we would like to thank the numerous individuals who participated in the regional focus groups, conference calls, and web-based questionnaire for sharing our interest in the topic and taking time out of their busy schedules to communicate their individual institution's experience with private loans. Finally, we would like to thank Patricia Steele, Dayna Krakower, Free Hand Press, and Gil Kline.

We heartily acknowledge the help of these individuals and organizations and recognize that they are not responsible for any errors of omission or interpretation contained herein.

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Executive Summary

Private loans, also known as private-label loans or alternative loans, have long been part of the student financial aid equation but are receiving new attention in recent years. Reports of significant growth in private loan borrowing combined with enhanced curiosity about the relationship between borrowing through federal student loan programs and borrowing through these private programs have fueled this increased attention. Private loans are used for many reasons: to fill the gap between a student's financial aid package and the actual cost of attendance, to help cover the expected family contribution (EFC) calculated under financial aid formulas, or to pay for additional expenses not normally covered by other forms of aid. With the growing gaps between the amount students and families are willing or able to pay for college and actual college costs after governmental and institutional aid are considered—often referred to as "unmet financial need"—private loans are becoming increasingly important as a mechanism for financing postsecondary education.

The gap between what students and families can pay and what college actually costs is especially important for students who choose to attend higher priced colleges. While the ability to choose which college to attend has been one of the hallmarks of U.S. higher education, the reality is that federal student aid—the main source of assistance to students—is much less effective than it used to be in promoting choice. Federal aid's limitations in supporting choice have therefore led many students to turn to private loans and other sources of external support as a major vehicle to allow them to choose the college that they wish to attend.

Understanding who gets private loans and their reasons for borrowing these loans is critical for future policymaking at the government, institutional, consumer, and student loan guarantor/lender levels. Yet very little research has been undertaken on the topic of private loans, particularly the three key areas that are explored in this report:

- **Private loan market.** The nature of the industry (including the major players, most of which also offer federal student loans), the competition among private lenders and loan products, and the incentives to offer favorable terms and conditions to students, parents, and schools are the principal features of the private loan market.
- **Practices of financial aid offices.** As key intermediaries on campus between

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students and the institution, aid administrators face the challenge of balancing the goal of limiting students' debt burdens with the need to facilitate choice in students' financing options.

- **Perceptions of students and parents.** Students and parents have their own points of view which take into account perceptions of debt, choices of institutions and enrollment patterns, and trade-offs among financing options. These perceptions impact the types of students who obtain private loans, as well as the reasons those students (and parents) decide to borrow.

This report explores the issue from these various perspectives in order to advance the discussion of private loan borrowing. The report draws upon nationally representative data, including the National Postsecondary Student Aid Study (NPSAS) and the Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (SUFAPPP), along with data from the College Board and the *Greentree Gazette*, a business magazine for higher education. In addition, the report presents new, original data from a survey of student financial aid administrators and from focus groups with financial aid professionals and lenders across the country.

Key findings

Different sources of research data lead to the same inescapable conclusion: the use of private loans is a growing part of college financing. Estimates from various data sources suggest that total private loan volume is now at least $5 billion to $6 billion per year and has been increasing rapidly since the mid-1990s. Put another way, the total volume of private loans has now surpassed the amounts awarded annually under the Federal Student Educational Opportunity Grant (FSEOG), Federal Work-Study, and the Federal Perkins Loan programs combined. Nevertheless, private loans still comprise only a small portion, about 10 percent, of total student loan volume. Overall, only 4 percent of undergraduate students, 3 percent of graduate students, and 16 percent of professional students (such as those in medicine, dentistry, and law) borrowed private loans during 1999-2000. In comparison, 28 percent of undergraduates, 23 percent of graduate students, and 74 percent of professional students borrowed federal student loans (NCES 1999-2000).

The incidence of borrowing private loans varies among types of students. **The groups most likely to borrow private loans include: 1) traditional undergraduates at relatively high priced, private four-year institutions; 2) undergraduates who face very high non-tuition costs, such as room, board, and other living expenses; and 3) professional students, particularly law school students, who face high tuition prices and have high financial need.** This is especially true for those students who borrowed the maximum Stafford loan amount for which they were eligible.

One of the most important findings of this study is that **private loans appear to be facilitating institutional choice** for students who have reached the limits of other types of financing, including federal student loans. That is, private loans help students attend the schools that they *want* to attend, rather than schools that they might *have* to attend because of inadequate financial resources. Financial aid administrators interviewed for

this report emphasized high financial need as an important reason for borrowing private loans. In many cases, high financial need is more often a function of the high price of attendance at a particular institution rather than low ability to pay. In addition, high need may also be related to inadequate levels of financial aid, including federal student loan limits. Considered together with the evidence on the characteristics of students who use private loans, the ability to obtain private loans allows many students with high financial need to choose the institutions or programs they want.

The study also found that **private loan and federal student loan borrowing are closely interconnected.** Many lenders base private loan terms and conditions on the broader market of student loans, especially federal student loans. In addition, changes in institutional practices concerning private loans have resulted from financial aid administrators' experiences with federal student aid and the borrowing limits in the federal programs. Perhaps most important, a high proportion of private loan borrowers also obtained federal student loans, and in many cases borrowed up to the federal loan limits. In 1999-2000, 77 percent of professional students, 50 percent of undergraduates, and 32 percent of graduate students who borrowed private loans had also borrowed the maximum total Stafford loan amount for which they were eligible. In comparison, among those who *did not* borrow private loans, 40 percent of professional students, 13 percent of undergraduates, and 4 percent of graduate students were at the Stafford total loan limits.

It is likely that if the federal loan limits were increased, a significant proportion of the students who are currently receiving private loans would obtain more federal loans instead, at least in the short term. At the same time, it is important to note that some private loan borrowers were *not* at the federal loan maximums—that is, they did not borrow the maximum amount for which they may have been eligible, or they did not borrow any Stafford loans at all. This may be because they were not eligible for federal student loans, or because they chose not to finance their higher education from federal aid sources.

Finally, while the vast majority of students do not appear to be borrowing excessive amounts, **there are a few specific groups of students for which private loans may be contributing to unmanageable debt burdens**. For example, almost two-thirds of law school students with a certain set of characteristics—those enrolled at schools that charged at least $10,000 in tuition, who faced financial need of $10,000 or more, and who borrowed the maximum Stafford loan for which they were eligible—required private loans to help meet their total costs of attendance in 1999-2000. Given the high costs of their specific programs, these students often must supplement federal loans despite the relatively high limits of $18,500 annually and $138,500, cumulatively (including undergraduate loans) in the Stafford loan program. Although high salaries in the future may cover the extra burden, such salaries are not guaranteed and some of these students may run into financial difficulties or be deterred from following certain careers.

Other findings of interest

- In 1999-2000, professional students borrowed an average amount of $10,076, while undergraduates and graduate students borrowed $5,100 and $9,140, respectively.

The types of students who were more likely to borrow private loans also were likely to borrow greater amounts, on average.

- **Students who borrow private loans tend to have certain characteristics, including enrollment on a full-time basis, attending high-priced institutions, and demonstrating high levels of financial need.** For example, 73 percent of professional students who borrowed private loans faced total costs of $30,000 or higher and 85 percent had financial need calculated to be $20,000 or more. In addition, the majority of undergraduate students who borrowed private loans were financially dependent on their parents, and were "traditional" students pursuing bachelor's degrees.
- **Some groups of students were more likely to borrow private loans than their peers**: those attending private not-for-profit institutions, those enrolling full-time, those who are relatively young, those who face higher costs of attendance, those with greater financial need, and those who borrow the maximum Stafford loan amounts for which they are eligible. Professional students in general—and law students in particular—were more likely to obtain private loans than undergraduates or other graduate students.
- **Even for groups of students who were "most likely" to borrow private loans, the majority of students did not necessarily borrow them**. For example, less than a quarter of traditional undergraduates at relatively expensive, private four-year institutions who borrowed the maximum Stafford loan amount for which they were eligible actually obtained private loans. This reinforces the notion that private loans continue to play a modest though important role in the overall student financing equation.
- Trade-offs may exist between obtaining private loans and other forms of financing. In particular, it seems possible that **some students elect to work more hours rather than obtaining private loans, and others choose to borrow private loans rather than working at all, or working more hours.** For example, of dependent students who worked during the school year, 82 percent of private loan borrowers worked part-time while 18 percent worked full-time, compared to 72 percent of non-borrowers working part-time and 28 percent working full-time.
- Students who decide to borrow private loans do so for various reasons. The **reasons most commonly cited by financial aid administrators were related to financial need**, including unmet need, high costs of attendance, and federal loan limits.
- **Other reasons cited for borrowing private loans include eligibility and lifestyle issues**. For example, some students borrow private loans because they are not eligible for federal financial aid due to marginal academic progress, missed financial aid application deadlines, citizenship status, or other reasons. In other cases, parents or students may be unwilling to change their lifestyles, making private loans an attractive option for covering educational costs.
- The role of parents in student borrowing of private loans is complex and multi-layered. **In a substantial proportion of cases (primarily for dependent students), parents are co-signers on private loans, and may even be helping students repay these loans.** This may enable students to attend an institution or program that is more expensive than their parents could ordinarily afford. On the other hand,

there is some evidence that parents are shifting some of the burden of paying for college onto the students—private loans may be used to cover part of the EFC, especially when parents are unwilling (or unable) to obtain PLUS loans.

- Private loans with different types of terms and conditions—what the loan industry refers to as private loan products—have become more diversified in recent years, due in large part to increased demand for additional sources to finance postsecondary education. **The number of private loan products increased from seventy-nine in March 1997 to 272 in March 2003, growing 244 percent.** Many of these private loan products are targeted toward specific groups of students, including specialized products for business, law, medical, and international students.
- **Some private loan products have competitive interest rates or other terms and conditions that have allowed them to compete favorably with federal student loans.** In the expanding student loan market, some private loan products have been able to compete with federal student loans by matching their flexibility, risk level, and rewards and services.
- The **increased demand and wider public acceptance for private loans also has led many financial aid offices to modify or adopt new practices and procedures.** For example, some financial aid offices have adopted preferred lender lists to standardize the loan application and certification process and make it more efficient. In addition, many financial aid administrators believe counseling, much like that for federal student loans, should be required for students obtaining private loans.

Implications and recommendations

This review of private loan borrowing suggests specific measures that might be considered by the federal government, colleges and universities, private lenders and guarantors, and the general public.

- During the current reauthorization of the Higher Education Act, Congress is considering whether or not to raise federal student loan limits. The decision made is likely to affect private loan borrowing in the short-term; some students who borrow private loans to meet need would take advantage of increased federal loan limits. However, it is less clear whether increased federal loan limits will have any effect on private loan borrowing in the long-term, or whether increasing the loan limits for *all* students would be the best use of scarce federal resources. Targeting increased federal loan limits to the students or institutions who require more funding but cannot easily obtain it might be a viable option for policymakers to consider. Another option would be to increase loan limits for all students, but allow institutions the flexibility to restrict loan availability.
- In addition, federal policymakers will need to establish interest rates on federal student loans. Private loans traditionally have had higher interest rates than federal student loans. Nevertheless, in recent years the interest rate gap between these two types of loans has narrowed considerably. Moreover, Congress' decision to change the variable federal student loan interest rate to a fixed rate of 6.8 percent in July 2006 may add or detract from private loan borrowing.

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- The challenge for postsecondary institutions is to reconcile their duty to encourage responsible education debt management with the need to fill classroom seats and dormitory beds. Financial aid offices should consider providing various forms of private loan counseling based on a student's borrowing level. Colleges and universities with a preferred lender list should consider asking lenders to assist with the counseling process or stipulating that lenders not approve students for private loans without first conferring with the school's financial aid office.
- The general public, and postsecondary consumers in particular, also have a responsibility when it comes to understanding financial aid and private loans. Students applying for financial aid should know that they will be responsible for paying at least a portion of their college costs, and they should familiarize themselves with the types of financing available, including private loans, along with the terms and conditions associated with these funding sources.
- Private lenders and guarantors can promote both federal student loan programs and private loans by continuing to advocate that students borrow the maximum federal student loans for which they are eligible while offering private loans with favorable terms and conditions to meet any remaining financial need. In addition, private loan providers should remain cognizant of the increased debt burden many students are taking on and explore the possibility of working with institutions to counsel students on borrowing responsibly.

Ultimately, private loans represent only a small portion of the total financial aid available to students. No one-size-fits-all solution exists that will either make private loans disappear or eliminate increasing amounts of student debt. Even if federal loan limits are raised in the HEA reauthorization, private loans will continue to play an important role in financing postsecondary education, facilitating choice, and providing financial support to students when they have exhausted other options.

Chapter I

Why Are Private Loans Important?

When student and family resources, combined with federal, state, and institutional financial aid, are not sufficient to finance the student's education, private loans become a viable option to fill the gap. In addition, private loans may be used to help cover the expected family contribution (EFC) required under financial aid formulas, or to pay for additional expenses not normally covered by other forms of aid. Co-signers on many private loans tend to be parents. Private loans are more difficult to monitor than other financial aid sources because they are managed by private lenders and exist outside federal loan programs, although most lenders offer both federal student loans and private loan products. Private loans usually do not require federal application forms such as the Free Application for Federal Student Aid (FAFSA), which is used to calculate the EFC and students' level of financial need. Most private loans are certified (approved and verified) through a college's financial aid office, and the funds are sent by the lender to the institution for disbursement. However, in some cases—such as when a student would like to cover expenses beyond the cost of attendance—private loans are obtained directly from lenders and do not go through the financial aid office.

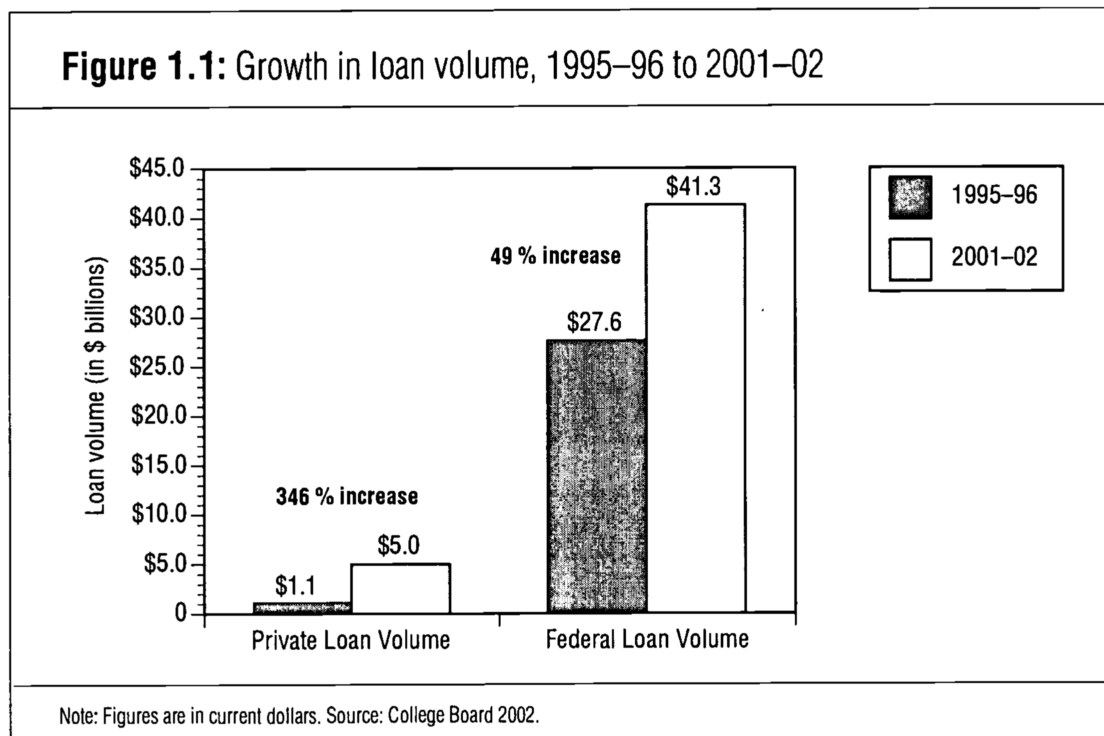
Privately funded loans predate the creation and growth of federally guaranteed loans; nevertheless, relatively little is known about private loans at the national level. The available data suggest that they are becoming increasingly important as a mechanism for financing higher education. By one estimate, the total private loan volume reached $5 billion in 2001-02. This represents a 346 percent increase from 1995-96, when the total volume was about $1.1 billion. In contrast, Federal Family Education Loan (FFEL) and Direct Loan volume increased approximately 50 percent ($27.6 billion to $41.3 billion) over that time period (College Board 2002). (see Figure 1.1) While the amount of private loans awarded is dwarfed when compared to the total amount of federal loans, the increase in volume nevertheless suggests a significant increase in the demand for these non-governmental loans. In fact, the total volume of private loans has now surpassed the amounts awarded annually under the Federal Student Educational Opportunity Grant (FSEOG), Federal Work-Study, and the Federal Perkins Loan programs *combined.*

This recent significant rise in private loan volume and the approaching reauthorization of the Higher Education Act (HEA) have brought greater attention to student borrowing for postsecondary education. Understanding what types of students are obtaining private loans and their reasons for borrowing these loans is imperative for future policymaking at the government, institutional, consumer, guarantor, and lender levels. Yet very little research has explored three key aspects of the issue:

- **Private loan market.** The nature of the industry (including the major players, most of which also offer federal student loans), the competition among private lenders and loan products, and the incentives to offer favorable terms and conditions to students, parents, and schools are the principal features of the private loan market.
- **Practices of financial aid offices.** As key intermediaries on campus between students and the institution, aid administrators face the challenge of balancing the goal of limiting students' debt burdens against the need to facilitate choice in students' financing options.
- **Perceptions of students and parents.** Students and parents have their own points of view which take into account perceptions of debt, choices of institutions and enrollment patterns, and trade-offs among financing options. These perceptions impact the types of students who obtain private loans, as well as the reasons those students (and parents) decide to borrow.

This report advances the discussion of private loan borrowing by exploring the issue from these various perspectives. By bringing together many of the existing data sources on private loans and contributing new original research and analyses, it is

Figure 1.1: Growth in loan volume, 1995–96 to 2001–02



Note: Figures are in current dollars. Source: College Board 2002.

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possible to paint a comprehensive portrait of the private loan sector (see Box on page 9 for details on data sources and methodology).

This chapter continues by briefly exploring the history of private loans and providing several estimates of private loan volume. Chapter 2 describes the types of private loan products available, why lenders create these products for various segments of the student population, and how private loans compare to federal student loans. The chapter also explores the idea that competition among loan products drives lenders and the industry. Chapter 3 discusses institutional responses to private loans as they relate to financial aid packaging, the evolution of preferred lender lists, and debt management counseling for students borrowing private loans.

From there, Chapter 4 identifies the types of students obtaining private loans at both the undergraduate and graduate/professional levels. It is clear that the growth in private loan volume is not equally distributed across the student population, but instead appears that private loans are being used to address the needs of specific groups of students. Chapter 5 then looks at the reasons, from the perspective of financial aid administrators, that particular types of students obtain private loans.

The report concludes by examining the unanswered questions and policy implications regarding private loans. The current reauthorization of the Higher Education Act (HEA) figures prominently given the discussions about whether federal loan limits need to be raised. These discussions cannot take place without acknowledging the role that private loans are playing in financing postsecondary education.

A brief history of private loans

College students today have a variety of financing options for postsecondary education, more than at any other time in U.S. history. Student loans from federal, private, and other sources are a crucial component of these funding options, and their importance has escalated over time. In many respects, since World War II the history of private loans in this country has been intertwined with changes in federal policy regarding financial aid, and federal student loans in particular. Although the relationship is complex, generally, private loans gain more visibility when federal student aid programs begin to lag behind college prices and tend to be less prominent during periods when federal student loan volume increases more rapidly.

Before the federal financial aid system began evolving during the mid-twentieth century, low-income students, if they enrolled in postsecondary education at all, generally attended local state supported schools (many of them two-year institutions) that had low tuition and fees.[1] The Servicemen's Readjustment Act of 1944 (more commonly known as the GI Bill) and the National Defense Student Loan Program (NDSL, which later became the Perkins Loan Program) were the first steps in the provision of federal aid to college students (Archibald 2002). However, many families did not have access to borrowing through NDSL; some were able to turn to other

[1] The terms "tuition" and "tuition and fees" are used interchangeably in this report.

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sources of funding. For example, states like Massachusetts and New York decided to develop guaranteed funds that would provide higher education loans to their residents. By 1965, seventeen states had insured loan programs, while a smaller number had state direct loan programs. Meanwhile, in 1960, United Student Aid Funds (USAF) was established as a private entity to bring loan funds from commercial sources to students; colleges deposited reserves so that their students could obtain loans (*Report of the ABA Student Loan Task Force* ... 1975). USA Funds brought private loans more visibility, although the volume remained relatively small.

These practices helped the federal government see the importance and need for guaranteed student loans to reach a broader population (Johnstone 1977). As a result, the Federal Guaranteed Student Loan Program (GSL, later renamed the Stafford Student Loan Program), which included loan guarantees and interest subsidies, was established in the Higher Education Act of 1965. Through the GSL program, lenders were guaranteed by the federal government against default, death, disability or bankruptcy. For qualifying families, the federal government also paid interest on the loans while the students remained enrolled (McAdam 1991). The federal guarantee ensured that all eligible students could have access to loans for higher education, regardless of their credit history or other factors that might make them "high risk" for private lenders. The in-school subsidy reflected the belief that higher education has benefits for society as a whole, giving the federal government an incentive to encourage equality of educational opportunity.

Originally, the GSL program aimed to encourage states to create insured student loan programs by providing federal advances; funds could also be provided to non-profit private loan insurance programs, such as USA Funds, to encourage their expansion. The legislation also created the Federal Insured Student Loan (FISL) program, which provided federal insurance for loans. FISL was intended to be a back up for state and private loan insurance programs, but over time the federal student loan guarantee became increasingly important (Wolanin 2003).[2] In the initial years the expense of the GSL program led Congress to limit eligibility to families with incomes below $15,000. More than a decade later, with the demand for student loans increasing, the income ceiling for guaranteed student loans was removed through the 1978 Middle-Income Student Assistance Act (Archibald 2002). All students, regardless of financial need, became eligible for federal student loans.

Through the 1960s and mid-1970s, student aid programs and other available funds contributed to increased educational opportunity. Nonetheless, postsecondary tuition, fees, and other college-related expenses continued to increase during this period, straining the ability of governmental aid sources to keep up. In the past, many students had been able to "work their way through" college, combining income from summer employment and part-time jobs held during the school year with federal and state education subsidies that considerably reduced their cost of attendance (Freeman and Parker 1987). By the early 1980s, however, many students had become dependent

[2] Despite the intention of the GSL program, state insurers operated in only about half of the states, while loan insurance was provided through FISL in the rest of the country. After the 1976 HEA reauthorization, state guaranty agencies were established in all states and multi-state or national guarantors emerged; the FISL program was phased out by 1984 (Wolanin 2003).

on contributions from their families to help finance their postsecondary educations. In addition, the demand for GSL loans grew enormously during this period.

In the early 1980s, several shifts in policy dramatically changed the federal student loan landscape. In 1980, the Parent Loan for Undergraduate Students (PLUS loan) program was established in order to provide an additional mechanism for dependent undergraduate students and their families to finance postsecondary education; however, the interest rates were so high that many families did not consider the program to be a good option.[3] A year later, the PLUS program was amended to extend loan eligibility to independent undergraduates and graduate/professional students, but at a higher interest rate (the name of the program also was changed to Auxiliary Loans to Assist Students, ALAS). In the same year, several decisions restricted the supply of GSL loans, including the imposition of a 5 percent origination fee on GSL borrowers and a return to financial need as a requirement for Guaranteed Student Loan eligibility (McAdam 1991).

Given the squeeze on federal student loans, families and students turned to private or "alternative" loans (meaning alternative or supplemental to Guaranteed Student Loan funds).[4] In fact, the increased demand for private loans and the large number of private loan programs operating in January 1982 led the Private Loan Task Force of the National Council on Higher Education Loan Programs and the Massachusetts Higher Education Assistance Corporation to publish "The Alpine," a newsletter reporting on private loan products and programs (Freeman and Parker 1987). Also, graduate and professional students began feeling the effects of the Stafford loan limits during the mid-1980s. In response, many graduate and professional programs initiated partnerships with private lenders to make additional funding available to their students, who, in general, presented relatively little risk to the lenders during a time of high loan default rates.

During the 1986 reauthorization of the HEA, Congress raised loan limits in the Stafford program. The ALAS program was reestablished as two separate programs: PLUS for parents of dependent students, and Supplemental Loans for Students (SLS) for independent undergraduates and graduate students. In addition, the interest rate formula under which the PLUS program had been established was replaced with a variable rate formula designed to make PLUS more competitive with the larger student loan market (Freeman and Parker 1987; McAdam 1991).

The 1990s brought an explosion in federal student loan volume when the 1992 HEA reauthorization increased the limits on the amount students could borrow and introduced the unsubsidized Stafford loan program.[5] (see Figure 1.2) The unsubsidized loan program was designed to provide students who did not qualify for need-based, subsidized Stafford loans with access to a guaranteed student loan. Unsubsidized Stafford loans operate virtually the same as subsidized Stafford loans except that the government does not pay interest on the loans while the students are in school. In the short-term, the availability of

[3] Furthermore, the PLUS program required repayment on interest and principal beginning 60 days after loan disbursement. See ACSFA 1994.

[4] Meanwhile, numerous states responded by creating tax-exempt revenue bond programs to provide education loans at lower interest rates than PLUS loans. Over time, however, Congress restricted these types of revenue bonds.

[5] The 1992 Amendments also uncapped the PLUS loan program so that parents could borrow up to the total cost of attendance (minus other funds students received). In addition, the SLS program was phased out in 1994.

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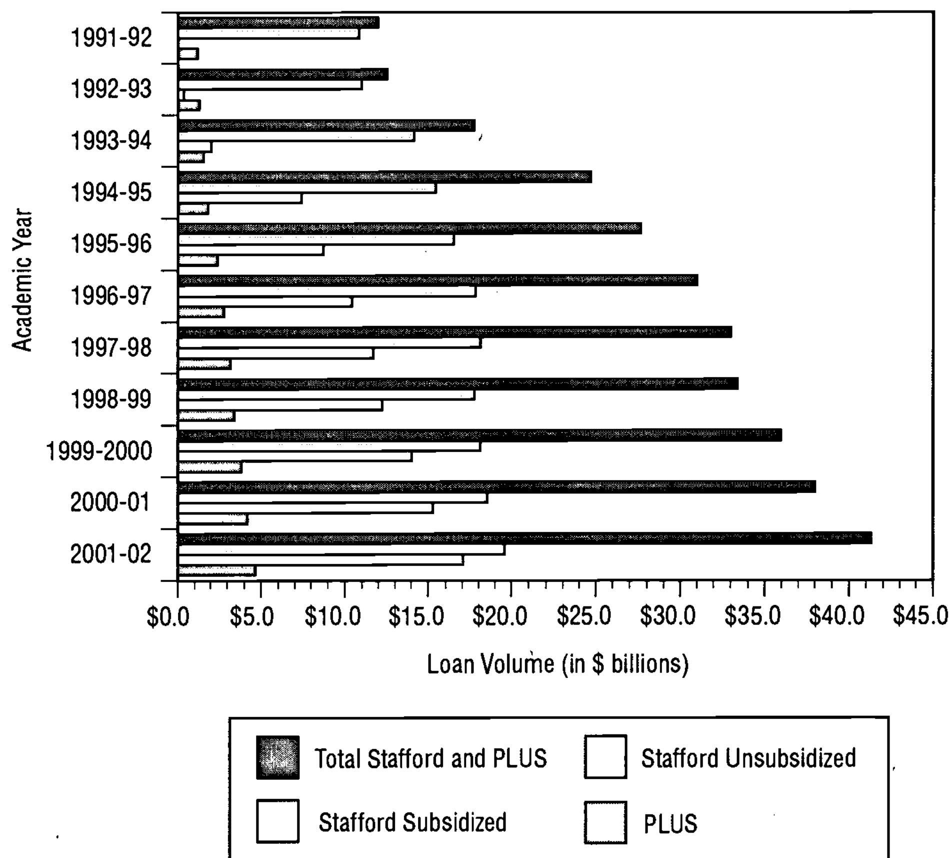
Figure 1.2: Growth in federal loan volume, 1991-92 to 2001-02



Note: Figures are in current dollars. Source: College Board 2002

this additional source of federal loan aid meant that less attention was paid to private loans, although the private market continued to exist alongside federal loans.

More recently, however, the rising costs of postsecondary education leads to questions about how students are meeting their financial need as well as the adequacy of federal student loan limits. Both the Stafford loan and the Perkins loan programs have limits for student borrowers (see Figure 1.3 for limits in the Stafford program). Students may borrow up to the cost of attendance (COA),[6] but the borrowed amount cannot exceed the maximum limit specified for the student's year in school, and students also must not exceed aggregate limits. Federal loan limits have not changed much since the 1986 reauthorization of the Higher Education Act. Yet, as mentioned earlier, college prices have risen significantly during this period, leading to growing amounts of unmet need (see Box on page 11 for a discussion of unmet need). At the same

[6] The Department of Education defines cost of attendance as the sum of tuition and fees; the cost of room and board or the living expenses for students who do not contract with the school for room and board; the cost of books, supplies, and miscellaneous expenses, to include a reasonable amount for a personal computer; and an allowance for transportation. Cost of attendance is sometimes referred to as total price of attendance in the literature on higher education financing.

Figure 1.3: Federal Stafford Loan Limits

Year in School	Dependent Students	Independent Students	Graduate/Professional Students
First	$2,625	$6,625 *(no more than $2,625 subsidized)*	$18,500 each academic year *(no more than $8,500 subsidized)*
Second	$3,500	$7,500 *(no more than $3,500 subsidized)*	**Students in medical, dental, and other health profession programs may borrow up to $38,500 per year (no more than $8,500 subsidized)*
Third	$5,500	$10,500 *(no more than $5,500 subsidized)*	
Fourth	$5,500	$10,500 *(no more than $5,500 subsidized)*	
Cumulative	$23,000	$46,000 *(no more than $23,000 subsidized)*	$138,500 *(no more than $65,500 subsidized);* debt limit includes undergraduate loans

Source: ED 2003b

time, interest rates and other terms on non-federal loans have become more comparable to federal student loans. In this environment, private loans are once again receiving increased attention as one of the many options students are turning toward to cover their unmet need. In fact, estimates of total private loan volume show that private loan use has increased significantly since the mid-1990s.

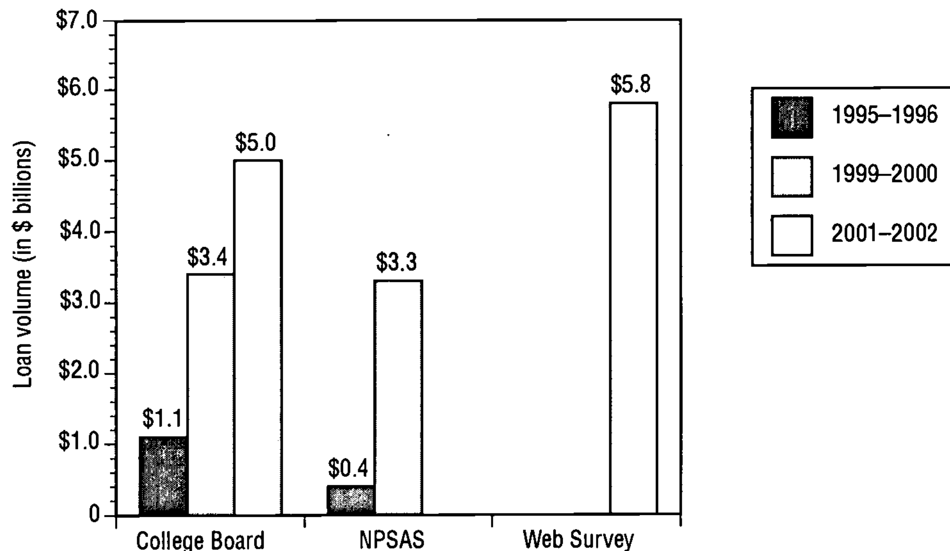
Estimates of private loan volume

Although anecdotal evidence suggests that the use of private loans is a growing part of college financing, the total loan volume has proven difficult to estimate. While each of the following approaches has some methodological flaws (see Box on page 9 for a discussion of sources and methodology), taken together they provide insights about the extent of, the changes in, and the distribution of private loan volume.

In 1995-96, the College Board began including non-federal loans from both private and state sources in its annual survey of aid available to finance postsecondary education. Based on an informal poll of the largest non-federal loan sponsors, the College Board (2002) estimated a total private loan volume of $1.1 billion in 1995-96 and $5 billion in 2001-02 (the latest year available). This suggests an increase of 355 percent (289 percent when adjusted for inflation) over this time period. According to their sources, more than half of the private loan volume went to graduate and professional students.

Nationally representative data from the National Center for Education Statistics (NCES) also can be used to estimate private loan volume for the years 1995-96 and

Figure 1.4: Estimates of private loan volume, 1995–96 to 2001–02



Note: Figures are in current dollars. Sources: College Board 2002; NCES 1999 and 1999–2000; IHEP/NASFAA web survey

1999-2000. Estimates from the National Postsecondary Student Aid Study (NPSAS) of the mean amount of private loan aid received by undergraduates, graduate students, and professional students can be applied to the fall enrollment figures for all degree-granting institutions from the Integrated Postsecondary Education Data System (IPEDS). Using this method produces estimates of private loan volume of about $3.3 billion in 1999-2000 (quite close to the College Board's estimate of $3.4 billion for that year) and about $375 million in 1995-96 (far below the College Board's estimate of $1.1 billion). This method also suggests that in 1999-2000 about two-thirds of private loan volume went to undergraduates, while the reverse was true in 1995-96.

Finally, the results of the web-based survey developed for this report provide another perspective of private loan volume. The survey asked financial aid administrators to estimate the percentage of all students who received private loans in 2001-02, the total dollar amount of such loans, and the average amount borrowed by undergraduates and by graduate/professional students. In addition, the survey asked how loan volume has changed at their institution in the past five years. Applying the results by sector to the fall enrollment figures from IPEDS leads to an estimate of about $5.8 billion in private loan volume in 2001-02. Overall, a little more than half the respondents reported that private loan volume has increased by at least 50 percent in the last five years, while the rest said loan volume has increased by less, stayed the same, or decreased.[7] The survey results also suggest that the overwhelming majority of private loan borrowers were undergraduates (87 percent overall).

[7] Four-year institutions were particularly likely to report increases of 50 percent or more, while public 2-year institutions tended to report that loan volume remained about the same.

Taken together (see Figure 1.4), these figures suggest that total volume in private loans is now at least $5 billion to $6 billion per year and has been increasing rapidly since the mid-1990s. It is important to keep in mind that the available estimates also suggest that these loans still comprise only a small portion of total student loan volume (11 percent, according to College Board data) and represent less than 6 percent of the total financial aid available to all students. Nevertheless, private loans are becoming an increasingly important variable in the higher education financing equation.

Sources and methodology

Information on private loans, especially on loan volume, is limited given the fact that most lenders do not publish proprietary data on their loans. However, as interest in private loans has grown, efforts to collect data on them have increased. This report compiles information from a variety of sources in order to present the most comprehensive information available about private loans. The most important sources of information are described below.

Some publications provide information on private loans. Since 1995-96, the College Board has included an estimate of total private loan volume in its annual report, *Trends in Student Aid*. This estimate is based on an informal poll of the largest non-federal loan sponsors, and the College Board notes that the figures likely underestimate total loan activity. In addition, the *Greentree Gazette*, a business magazine for higher education, contains a student loan directory that chronicles private, federal, and campus-based lenders and loan products. Specifically, a bi-annual survey describes the diverse types of private loan products currently available along with loan terms and conditions. Information is derived from regular surveys of lenders active in higher education.

The best source of information on the background characteristics, enrollment patterns, and financing mechanisms of students is the National Center for Education Statistics' survey of undergraduates and graduate/professional students, the National Postsecondary Student Aid Study (NPSAS). The most recent survey was completed in 1999-2000; other years are 1995-96, 1992-93, 1989-90, and 1986-87. The 1999-2000 NPSAS includes a self-reported variable on the amount of private loans received in that year (previous years include a variable on "other loans," the majority of which are private loans). The private loan variable allows an examination of the types of students obtaining these loans. Unless noted otherwise, differences between groups of students highlighted in the text are statistically significant at the .05 level. It is important to keep in mind, however, that the NPSAS figures are based on student-reported data, and may underestimate the true percentages.[8] At the same time, the percentages and average amounts are likely to have changed since 1999-2000.

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[8] For the loan volume estimates, fall enrollment figures (based on IPEDS data) were taken from the *Digest of Education Statistics* (NCES 2002). Other methodological issues related to the estimate of loan volume include the following: the NPSAS figures for 1995-96 are for all "other loans," not just private sources, and may therefore include loans from employers (although private loans likely make up the bulk of this category); enrollment data are fall semester headcounts rather than the whole academic year; and the figures reported in the *Digest* are for "institutions of higher education" in 1995 and for "degree-granting institutions" in 1999-2000—slightly different universes of institutions, with both excluding the enrollment of a specific subset of institutions. NPSAS estimates could be differentiated even further (for example, by institutional type) and then applied to fall enrollment figures, but given the broader measurement issues the extra precision might not lead to "better" estimates.

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Another interesting source is the Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (SUFAPPP), conducted by NASFAA in 2001. This survey of the chief financial aid administrators at more than 2,500 institutions provides information on the policies and procedures used to award financial assistance to undergraduates during the 1999-2000 academic year. It posed several questions about private loans, including the percentage of undergraduates receiving these loans and the reasons most often cited by borrowers for wanting to obtain private loans.[9]

For this report, qualitative research also was conducted through focus groups and phone interviews with financial aid administrators and lenders. Focus groups and interviews are not representative of an entire population, and in this case the focus groups rely on the perceptions of aid administrators who may or may not know the full amount of private loan borrowing that takes place on their campuses and lenders who cannot account for the entire market. Nevertheless, they are useful tools to explore issues and generate hypotheses for future research. Four focus groups with financial aid administrators were conducted between December 2002 and January 2003, representing four regions of the United States: New England (Massachusetts), the Midwest (Michigan), the Southwest (Louisiana), and the Far West (California).[10] In addition, a separate focus group of lenders was conducted simultaneously with the New England focus group of financial aid administrators. A mixture of institutional types was represented at each focus group, including public universities, small public colleges, community colleges, private not-for-profit colleges, proprietary schools, and specialized graduate institutions. Likewise, the lender focus group featured both for-profit and not-for-profit lenders of which some represented national companies while others served only regional borrowers. Phone interviews were conducted to follow up with certain institutions and lenders (both focus group participants and non-participants), where aid administrators and lender representatives were willing to provide more detailed information. Both the focus groups and phone interviews were conducted using a structured framework that included questions about changes in private loan volume, the reasons why students obtain these loans, preferred lender lists and other institutional practices, the role of the federal government in regard to private loans, and the role of lenders in private loan borrowing.

Finally, a brief web-based survey of financial aid administrators was developed specifically for this report in order to gain more recent information about the breakdown of students receiving private loans as well as the amount of and changes in loan volume. A sample of 831 institutions was drawn from the total NASFAA membership of 2,566 institutions. Thirty-seven institutions from the sample had to be excluded because of inaccurate contact information. For the remaining 794 institutions, a web-based questionnaire was e-mailed to the chief financial aid administrators, with one follow-up e-mail, over the period February to April 2003. Of these, 227 institutions responded, for an overall response rate of 29 percent.[11] The survey respondents appear to reflect the total NASFAA membership population[12] in terms of the distribution of institutions by sector, region, Carnegie Classification, enrollment size, and average tuition and fee levels (see the Appendix for a breakdown of the characteristics of survey respondents). These similarities suggest that the survey results can provide some insight into private loan borrowing in the population as a whole. Nevertheless, it is important to keep in mind that the results depend on the perceptions of financial aid administrators (who, for example, may not be aware of private loans that were not certified through the financial aid office.)

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[9] See College Board and NASFAA (2002) for a discussion of the survey methodology and limitations.

[10] Comments also were received at the U.S. Department of Education's 2003 Spring Conference.

[11] The response rate varied by sector, from 43 percent of private not-for-profit four-year institutions in the sample to 22 percent of public two-year institutions.

[12] Although the NASFAA membership is broadly representative of postsecondary education institutions as a whole, it is not nationally representative; proprietary schools and private, not-for-profit 2-year institutions are underrepresented.

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Unmet need and private loans

"Need" and "unmet need" are financial aid constructs that are helpful in understanding how students and families choose among privates when financing higher education. Need, as calculated through the federal need analysis methodology, is the difference between the total cost of attending an institution and the amount students and families are expected to contribute (the expected family contribution, EFC, which represents ability to pay). The components of the formula mean that the calculation of need can reflect low levels of family resources, the high price of attending a particular institution, or both. Unmet need then refers to the amount of calculated need that has not been met by the financial aid process—in other words, the costs remaining after the EFC and financial aid are subtracted from the student's cost of attendance (although the type of aid subtracted may differ depending on the specific definition of unmet need). From the student's perspective, unmet need represents (at least in theory) the amount of financial resources beyond the EFC that he or she must personally provide.

For the purpose of examining private loan borrowers, unmet need can be defined in two ways: 1) cost of attendance minus EFC minus all grants as well as other federal need-based aid; and 2) cost of attendance minus EFC minus *all* aid from all sources.[13] Conceptually, the first definition examines the amount of need that has not been met after students take advantage of the types of aid with the most affordable terms (grants, subsidized loans, and work-study); students must then make choices about how to cover their unmet need using less advantageous funding sources. The latter include unsubsidized Stafford loans and PLUS loans, which have terms and conditions that are not as beneficial as those of grants, work-study, and subsidized loans. These loans are available—up to the yearly federal loan limits—to all eligible students/parents,[14] regardless of need, and can be viewed as choices among financing privates (in competition with other options such as private loans).

The second definition includes all aid—unsubsidized Stafford loans, PLUS loans, and private loans—in order to see if students are getting their need met after all types of aid are considered. This perspective helps to determine the extent to which the financial aid system was successful in helping students meet the costs of attendance with some sort of aid; in this sense, this definition measures "remaining need" rather than "unmet need."

The constructs of need and unmet need help set the context that explains why students might obtain private loans. At the most basic level, students who have unmet need may obtain private loans instead of, or in combination with, other financing alternatives such as working, using credit cards, decreasing attendance intensity, and obtaining more support from parents (see below). Students may have unmet need for several reasons:

- These students may have unmet need because they have *availed themselves of all possible federal aid sources and still had a gap between their aid and cost of attendance.*
- On the other hand, students *may not be eligible for federal student aid, or they may choose not to finance their educations with federal financial aid sources*, and require other funding sources.

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[13] PLUS loans are included in this definition, although they are available to parents rather than students.

[14] PLUS loans are available only to parents of dependent students, and they must go through a credit check.

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At the same time, students who do not have remaining need (in other words, their EFC and aid together cover the cost of attendance) may still choose to obtain private loans or other types of funding.[15]

- Some students may borrow private loans to *cover part or all of their expected family contribution* because of their parents' (or their own) inability or unwillingness to provide the full amount.[16]
- Other students may borrow private loans to *finance expenses above the cost of attendance* (because most federal, state, and institutional aid is available only up to the COA).[17] These private loans may be specialty loans for expenses such as bar exam preparation or medical residencies; however, these expenses also may include lifestyle expenses such as credit card debt or car payments.

Although much emphasis has been placed on unmet need given the rising price of college, increasing college enrollments are evidence that students are managing to find the money to meet their unmet need or are turning to other alternatives. For instance, many parents and students choose to finance unmet need with PLUS loans and/or private loans. Other students work while enrolled, increase the number of hours they work while enrolled, or "stop out" from their educational pursuits to work and save money that will allow them to return in the future. Some students reduce their immediate cost of education by enrolling part-time, and still others decided to pursue their postsecondary education at less expensive colleges and universities. While students choose a variety of options, the available evidence suggests that an increasing number of students are turning toward private loans to cover their unmet need or other expenses.

[15] These are students who receive aid greater than their federally defined need; see next footnote.

[16] Similarly, non-need-based loans available from state governments are available to cover EFC. Further, in some instances, federal student aid rules allow students and their families to obtain federal non-need-based loans (Stafford unsubsidized loans and PLUS loans) to cover their EFC (as long as they do not exceed annual and cumulative loan limits). Along with private loans, the U.S. General Accounting Office (GAO) terms these non-need-based loans that replace EFC as "substitutable loans." GAO (2003) recently found that of the 22 percent of full-time undergraduate federal aid recipients who received financial aid that was greater than their federally defined financial need in 1999-2000, most had obtained substitutable loans.

[17] Because the majority of private student loans can only be certified up to the COA, students may forgo certification and have the private loan funds sent directly to them. Lenders send certified student loan funds directly to the college or university.

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Chapter 2

What Types of Private Loan Products and Lenders Exist?

Private loan products have become more prevalent and diversified during the past decade. This is due largely to increased student demand for additional postsecondary education funding and marketplace competition accompanying this demand. Private for-profit and not-for-profit lenders, many of whom are known for offering federal student loans, continually monitor and adapt their private loan offerings to reach a larger share of the market. As a result, competition has grown significantly among lenders, and private loan products are now available to help finance every level of postsecondary education, including an increasing number of specialized products for business, law, medical, and international students.

Background

The *Greentree Gazette,* a higher education business magazine, began tracking private loan lenders and products in its January 1997 issue and suggested that campus administrators should begin paying attention to the increasing number of these lenders and products. Several reasons were given at the time, all taking into account the approaching 1998 reauthorization of the Higher Education Act.

- U.S. undergraduate enrollment was likely to increase by as many as 1.9 million students between 1995 and 2005.
- Postsecondary education costs were likely to grow by as much as 70 percent during that same ten-year period.
- Federal and state subsidies were not expected to rise quickly enough to offset losses, as state budgets allocated less money to public universities and increases in federal student aid were unlikely.
- No increases in federal loan limits were expected in 1997-98.

These expectations have been validated in the interim between the 1998 reauthorization of the Higher Education Act and today. Demand for funding has grown. As more students enroll in postsecondary education they require greater amounts of money to

enroll or remain enrolled in school and they explore previously unused funding sources. As anticipated, in parallel with this increased demand, the private loan market has grown exponentially. Approximately seventy-nine private loan products were available in March 1997; six years later, in March 2003, that number had grown to 272 products, a 244 percent increase (*Greentree Gazette*, March 1997, p. 10; March 2003, p. 89).

While the number of private loan products continues to increase, the number of private lenders has become fairly stable, due in large part to mergers and a balance between lenders entering and leaving the market. (see Figure 2.1) For example, during the final months of 1998 and the early months of 1999, bank mergers actually decreased the number of private lenders even though eleven new private loan products were introduced during the same period (*Greentree Gazette*, March 1999, p. 28). Competition drives private lenders and the products they offer.

Comparing Private and Federal Student Loans

Private loan products share many similarities with federal Stafford student loans.[18] This is not a coincidence; as a representative from one of the major lenders pointed out, "Our private loans are designed with Stafford loans in mind." Both private loan products and federal student loans can be used only to help students finance their postsecondary educations and can be certified (approved and verified from the college's financial aid office) only up to a certain amount. For private loans this amount often is either a set dollar amount or the cost of attendance minus aid, whichever is less. Federal student loans have annual loan limits that vary by both the student's year in school and dependency status, and like most private loans, they cannot exceed the student's cost of attendance.

At the same time, private loan products and federal student loans have several differences. The three most compelling differences among the two types of loans relate to their flexibility, the level of risk and its associated interest rates, and the services and rewards attached to the loans.

Private loans have the ability to provide student borrowers with greater flexibility than federal student loans. A major lender in the private loan market noted, "Although private loans are intended to be *supplementary* to Stafford loans, not *alternatives* to federal loans, private loans do have the ability to provide student borrowers with greater flexibility with regard to loan origination fees, interest rates, and repayment terms and conditions." In addition to the fewer restrictions associated with these options, private loans also provide flexibility in other areas. For instance, private loan borrowers can obtain the loans throughout the year as opposed to the limited time each semester that federal student loans are available. Likewise, most private loans provide fixed interest rates (which have been quite low in recent years) that give students a better sense of what their monthly payment will

[18] The Federal Stafford Loan Program is composed of two programs: the William D. Ford Federal Direct (Direct Loan) Program, which has its funds processed through the federal government, and the Federal Family Education Loan (FFEL) Program, which has its funds processed by participating lenders, banks, and credit unions.

be for the duration of repayment. Most private loans also do not require students to complete the FAFSA; although some form of application is generally required (as well as a credit check), many parents and students believe these applications are easier, shorter, and less invasive than the FAFSA, especially for those who are unwilling to provide their personal financial information to the government.[19] Finally, because lenders almost always list their products on the internet, it has become increasingly simple for students to shop around for the best loan product to meet their needs. By comparing the terms and conditions associated with the large number and variety of private loan products on the market, students can evaluate the tradeoffs between features such as origination fees and interest rates, and identify the most convenient repayment options.

Federal student loans cannot provide the same level of flexibility, largely because of the high loan volume serviced between the two programs. The large volume requires that federal loans have standardized terms and conditions so the programs can operate efficiently. Federal Stafford Loans through the Direct Loan and FFEL Programs have origination fees and a variable interest rate (not to exceed 8.25 percent) that is set each July for loans in repayment.[20] Federal Stafford loans also carry a six-month grace period following a student's graduation or departure from school before loan repayment begins.[21] Interest on subsidized federal Stafford loans is paid by the federal government while the student is in school, during the grace period, and any time the loan is deferred. Unsubsidized federal Stafford loans, on the other hand, charge interest while the student is in school and throughout the grace period (ED 2003a).

One of the most important differences between federal student loans and private loan products is the level of risk involved. Private loans typically carry higher risk than federal student loans, and this risk traditionally has been translated into higher interest rates. Despite private lenders' desire to provide loan products that will garner them the largest share of the market, their need to protect themselves as lenders often precludes offering products that meet all student borrowers' needs. The higher the risk a student presents (determined primarily by a student's credit history), the higher the cost to lenders. Private lenders are able to neutralize this risk by placing higher interest rates on loan products for students exhibiting low credit ratings and requiring student borrowers, particularly first-year students, to have co-signers for their loans.[22]

Although some private lenders maintain the same interest rate for all borrowers at all times, other lenders base rates on an individual's credit score. For many student borrowers, a poor credit rating often is the largest barrier in obtaining an private loan. In September 2002, only two of 259 private loan products were credit-blind, or available without a credit check (Hoffmann 2002). When processing a potential borrower's

[19] The FAFSA generally requires individual tax data.

[20] Beginning July 1, 2006, the interest rate on federal Stafford loans will become fixed at 6.8 percent.

[21] Under the FFEL Program, aspects of federal Stafford loan repayment plans may vary because individual lenders can tailor the repayment plans (ED 2003b).

[22] Some lenders indicated that a growing number of private loan products do not require a co-signer. These types of loans often are requested by institutions with large numbers of international students. The trade-offs for private loans that do not require co-signers are steep origination fees and higher interest rates.

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Figure 2.1: Lenders with the most private loan products, March 2003

Lender	Number of Private Loan Products
Northstar	15 products
Southwest Student Services Corporation	14 products
Key Bank	12 products
Student Loan Xpress	12 products
Access Group	11 products
Fleet	11 products
Nellie Mae	11 products
Bank One	10 products

Note: These lenders had the most private loan products when the March 2003 issue went into publication. Because of fluctuations in the private loan market, the list of lenders with the most products changes frequently. Note that the number of loan products does not necessarily reflect the terms and conditions of the loan products.
Source: *Greentree Gazette*, March 2003, p. 90

application, lenders are challenged to determine whether a student is "credit-worthy," having existing or past credit relationships that are favorable, or "credit-ready," having no unfavorable circumstances and maybe no credit history at all. Using an applicant's credit rating, among other criteria, private lenders can exercise discretion when approving and setting the terms for individual loans.

Federal student loans do not carry the uncertainty and risk associated with private loans because federal loans are guaranteed. The guarantee means that all students who are enrolled at least half time at participating colleges and universities, and who are eligible to receive a loan as determined by their FAFSA, will be approved for a federal student loan. In other words, students' credit histories do not affect their ability to obtain federal loans. Because the federal guaranteed loan program is subsidized by the government, the interest rate on federal student loans is regulated and traditionally has favored student borrowers. Additionally, Stafford loans are federally insured and carry discharge policies that release borrowers from all repayment obligations in certain circumstances, such as death, total and permanent disability, bankruptcy, and schools closing before students can complete programs of study (ED 2003b).

Services and rewards provided with private loans and federal student loans also vary. As the market continues to be saturated with an increasing number of private loan products, many lenders are distinguishing themselves through the rewards and services they offer, such as direct deposit, on-time payments, co-signer release options, and interest-only payments. Lenders are also offering the following types of services: on-line and phone pre-application; on-line application tracking; on-line

Figure 2.2: Comparison of terms and conditions of federal student loans and selected private loans

	Origination Fee	Interest Rate Index and Margin	Annual Percentage Rate (APR)
Stafford Subsidized and Unsubsidized loans	Up to 4.0% of the disbursed loan amount[1]	4.06%[2]	Variable (not to exceed 8.25%)
PLUS	Up to 4.0% of the disbursed loan amount	4.86%	Variable (not to exceed 9.0%)
Lender 1	No fee	LIBOR Index +2.7%	5.33%
Lender 2	No fee at origination; fee of 0 to 6% added when repayment begins[3]	Prime + 0% (during school); Prime + 0.25%	(dependent upon fee charged at repayment)
Lender 3: Private loan A	6.5% of the disbursed loan amount	Prime -0.50%	4.36%
Lender 3: Private loan B	No fee	Prime +1.0%	5.21%
Lender 4: Private loan A	6.5% of the disbursed loan amount	Prime + 0%	4.87%
Lender 4: Private loan B	No fee	Prime +0.50%	4.71%
Lender 5: Private loan A	6.5% of the disbursed loan amount	LIBOR Index +2.80%	4.77%
Lender 5: Private loan B	No fee	LIBOR Index +3.95%	5.25%

NOTES: The names of the lenders and products have been withheld. The descriptions are intended as illustrations and in no way are meant to endorse a particular product or lender. The private loan products and rates given are for students who are credit-worthy (demonstration of a satisfactory credit history and sufficient current income). Each APR is current as of 04/01/03 and may increase during the life of the loan. APR calculations assume the student borrows $15,000. Prime equals 4.25% and LIBOR Index equals 1.35% as of 04/01/03. Prime may change monthly. The LIBOR Index may change quarterly.

1 Lenders may collect an origination fee up to 3.0% of the loan disbursement amount, along with a 1.0% guarantee fee (although the guarantee fee often is waived). The loan origination fee is deducted proportionately from each loan disbursement.

2 The rate listed is for the period 07/01/02 through 06/30/03. Stafford loans disbursed on or after 10/01/98 have an interest rate based on the 91-Day T-Bill plus 1.7% while the student is in school, during the grace period or in deferment. The rate is based on the 91-Day T-Bill plus 2.3% during repayment.

3 Fee is based on the borrower's credit analysis at time of repayment

Sources: Various lenders' websites; ED2003a

and phone pre-approval; e-signature; and on-line account access. In March 1999, approximately 39 percent of private loan products offered rewards (*Greentree Gazette*, March 1999, p. 28). According to our analysis, four years later, in March 2003, 97 percent of the marketed products came with rewards (*Greentree Gazette*, March 2003, pp. 92-103).

Because federal student loans are guaranteed, many of the services provided with the loans are considered conveniences rather than rewards. Borrowers with federal Stafford loans are able to obtain a personal identification number (PIN) that allows them to sign electronic promissory notes and access the National Student Loan Data System (NSLDS) which provides information on the students' loan and/or grant amounts, outstanding balances, loan status, and disbursements (ED 2003b).

Competition

Before the 1980s a few private loan products drifted in and out of the student loan market; it was not until the mid-1980s that private loans really became prevalent in the market. In the roughly fifteen years since then, the private lenders who have maintained their presence have observed several changes in the market. These changes have led to or accompanied increases in student demand for additional postsecondary funding sources. One of the largest private lenders articulated some of these changes:

- There has been an increase in the acceptance of private loan products in the postsecondary market.
- Students and parents are expressing less apprehension about borrowing private loans.
- Colleges and universities are exhibiting greater willingness to recommend private loans to students.
- Postsecondary borrowers no longer feel like they are getting "ripped-off" by private loans' terms and conditions.
- The graduate and professional student private loan market is well established, while the undergraduate market is rapidly developing, fueled in large part by the growth in adult students returning to school.
- It is extremely difficult to be competitive in the postsecondary student loan market without offering at least one private loan product.

Wider acceptance of these types of loan products by student borrowers has caused competition within the private loan marketplace to increase substantially in recent years. This competition is multi-faceted and includes competition between private loans and federal student loans; competition among a particular lender's federal and private loan products; and competition for both the largest overall private loan market share and specific segments of the private loan market share.

Private loans have not been considered competition for federal loans in the past. However, private loans more recently have begun carrying terms and conditions that

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Private loans at state universities— one solution for tuition and fees increases

A large public university in the Midwest that enrolls approximately 48,000 students has seen significant increases in both the number of private loan applicants and private loan volume. During the 2000-01 academic year, 900 applicants received just less than $6 million in private loans. The following year brought 1,400 applicants and a total of $10 million in private loan volume. As of February 2003, the university's private loan volume had grown to $14.4 million from 1,865 applicants. Among the university's private loan borrowers, 94 percent are undergraduates. Of these undergraduate borrowers, approximately 78 percent are dependent, and roughly 40 percent also received PLUS loans.

This university has found that most of the private loans are being used to help pay the regular cost of education. Recent sharp cut-backs in state funding have contributed significantly to the increase in private loan borrowing on campus. In fall 2001, students saw a 9 percent increase in tuition and fees from the previous year. In fall 2002, that increase jumped another 9 percent for students who were enrolled the previous year and 19 percent for all new students enrolling, including transfer students. Prior to fall 2001, the institution's tuition increases had been capped at 6 percent per year.

The university responded by instituting a need-based grant as a partial remedy for students whose need rose due to the tuition and fees increase. Nevertheless, a financial aid administrator noted that the tuition increases have created a cliff for mid-need students.

"The Pell-eligible students can get nearly everything covered in their financial aid packages; however, once a student's EFC exceeds Pell, the university usually can offer only Stafford loans. Sometimes Stafford loans don't cover the student's need so private loans become a necessity."

rival those of federal student loans. Higher education institutions and most lenders encourage students to take advantage of federal loans first before turning to private loans. One private lender commented in an interview: "It is standard practice for us to talk to students about Stafford loans first and recommend they max out on federal loans before turning to private loans. We do this in large part because Stafford loans are guaranteed and students won't be subject to a credit check."

Despite these advising practices, a changing economy has increased the appeal of private loans to some student borrowers. Standard interest rates on most private loans used to be based on the prime lending rate, plus 2 percent. But lenders today are offering loans with interest rates as low as prime rate plus 0 percent, or even prime minus 0.5 percent in some cases (Hoffmann 2002). When comparing the fixed low interest rates and relatively easy loan applications with federal Stafford loans' variable

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interest rates and the perceived complexity of the FAFSA, some student borrowers are tempted to forgo the federal guarantee in favor of the private loans' immediate perks.

Moreover, private lenders who provide loans for FFEL schools are placed in a difficult position. They want to capture as much FFEL volume as possible because of its profitability; however, they also do not want to lose any share of the private loan market. By offering attractive private loan products lenders risk losing FFEL volume to some of their less profitable private loan products. At the same time, lenders that fail to market appealing private loan products face other risks. One of the major private lenders commented: "We market our products as a package to schools, even Direct Lending schools. In essence, we want to market our company and the services we can provide to schools regardless of whether or not they provide us with any Stafford volume."

An increase in borrower diversity also is driving competition in the private loan market. Although many private loan products are widely available, more lenders are taking advantage of marketing their products to specific audiences. For example, graduate and professional students always have held particular appeal to lenders for numerous reasons.[23] One well-known private lender recalled, "graduate and professional schools really gave rise to the private loan market. The schools approached lenders in the mid-1980s when their students were facing federal loan limits. At a time of high student default rates, graduate and professional students were considered less risky because they already had obtained an undergraduate degree and were likely to enter high-paying fields."

Private lenders have incorporated different methods for capturing a larger share of the graduate and professional private loan market. One method is for lenders to split one of their successful private loan products into several smaller products. For example, one private lender divided its larger medical sciences private loan into separate smaller loan products for nursing, optometry, dentistry, pharmacy, podiatry and veterinary medicine (Tombaugh 2003). A private lender that tends to cater to graduate and professional students noted that market research has guided the company's decisions to grow their product line by introducing either new loan products or subproducts. "We have several specialized products but don't happen to offer a separate education product because there are so many other lenders and products serving that market. Research has helped us strategically plan how we can best serve students and meet their needs in the market."

Increased competition among private lenders has allowed the number of private loan products for graduate and professional students to grow considerably in the period between March 1999 and September 2002. Our analysis found that eight private loan products were targeted toward law students in March 1999. By September 2002 that number had more than tripled to twenty-six loan products. Likewise, the number of products marketed to business students increased from eight to sixteen; dental student products grew from three to nine; and loan products specifically for medical

[23] One reason that private loans are an important funding source for independent students and graduate and professional students is because they do not have access to PLUS loans.

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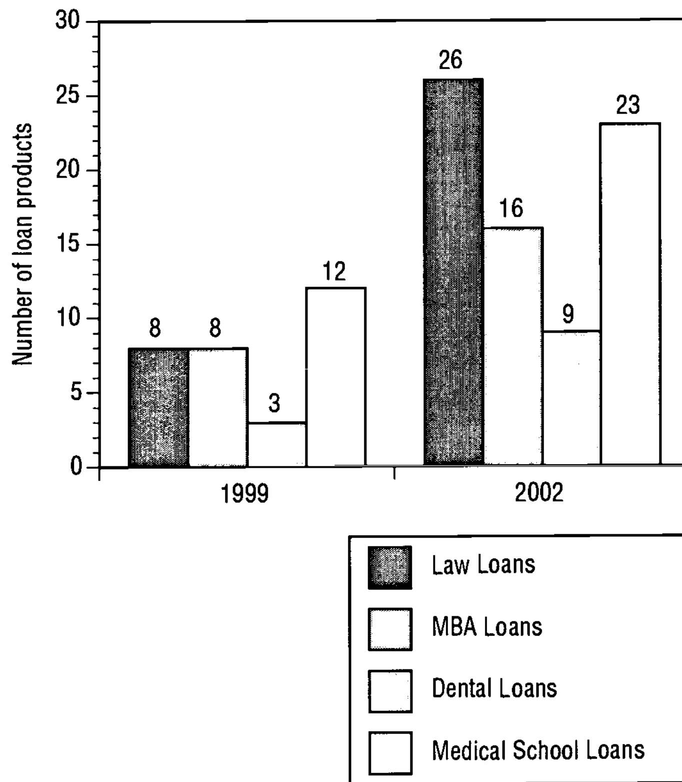
Figure 2.3: Growth in specialty private loans, March 1999 to September 2002



Note: Data derived from *Greentree Gazette*, March 1999, pp. 32–36; and September 2002, pp. 88–100

students expanded from twelve to twenty-three (see Figure 2.3).

The analysis also revealed that although the number of private loan products in the market has continued to increase, several of these products have overlapping target audiences. In other words, some loan products may be targeted solely toward graduate and professional students while others may be available to both undergraduate and graduate students. In March 2003, graduate and professional students had 196 private loan products available to them, but many other segments of the postsecondary education market also fared well. Postgraduate borrowers had 137 products to meet their needs, and 124 products were available to undergraduate students.[24] Private lenders also are meeting the needs of undergraduate students completing their second degree (101 products); continuing education students (sixty products); and students attending school for skills training (forty-five products) (*Greentree Gazette*, March 2003, pp. 104-109).

The newest area of competition within the private loan market appears to be loan products for international education. Our research shows that American students studying abroad now have thirty-six private loan products available to them, while sixty products are targeted toward foreign students studying in the United States (*Greentree Gazette*, March 2003, pp. 104-109). Additionally, private lenders have tapped into the Canadian market and now offer forty-nine products for Canadian students studying in the United States.

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[24] Postgraduate borrowers consist primarily of students in or recently graduated from professional programs. Loan products in this category often include funding to help students study and/or pay for such things as the bar or board exams and medical residencies.

Lender and guarantor relationships with students, parents, and schools

Private lenders who have maintained a competitive presence in the student loan market in general, and the private loan market in particular, have done so not only because of the products they offer but also because of the services they provide to students, parents, and schools. Lenders know that competitive products are required to be selected for schools' preferred lender lists and the highest level of customer service is essential to remain on the schools' lists. One of the largest private lenders commented: "We take an overall service approach in our relationships with schools. We work with the schools as an educational partner to determine how to best meet their needs."

Beyond the services and rewards discussed earlier in this chapter, private lenders are making concerted efforts to help students responsibly manage their increasing debt burden. Lenders are increasing the amount of time they spend on campuses and developing materials that will provide effective entrance and exit counseling for student borrowers. In addition, some lenders are beginning to provide counseling resources that relate specifically to private loans and the importance of building good credit. Many lenders recognize that some parents feel more comfortable co-signing private loans for their students rather than taking out loans themselves. While most lenders do not know whether the parents ultimately pay off the student's private loan, or whether the student is entirely responsible for the loan's repayment, lenders are cognizant of the student's accumulating debt.

Loan guarantors—the frequently invisible agencies that insure lenders against losses due to a borrower's default, death, disability, or bankruptcy—also are beginning to demonstrate a more public commitment to student borrowers. While a few of the oldest guarantors have long been committed to public service and offered pro bono support to students, many more are now asking what value they can add to the student borrowing experience. In many cases, this value can be found not necessarily in providing students with additional information, but rather in providing students with information at the right time. A representative of a large guarantee agency noted, "Students are getting the right information, but they're getting it at the wrong time." But, many more guarantors are now providing timely and useful information to students by intervening and suggesting that students receive advice and guidance a month before their loans go into repayment as a possible way to curtail loan defaults and to assist students in building good credit.

HEA reauthorization and its implications for lenders

Several private lenders had thoughts on the approaching HEA reauthorization. Most lenders acknowledge that if federal loan limits are raised, there will be some decline in private loan borrowing. Many of the large private lenders do not believe such an increase would be detrimental to their companies. One well-known lender commented: "We've experienced loan limit increases before, most recently in 1992 when the graduate loan limits were increased to $18,500 per year. Increased federal loan limits most likely would only change the proportion of federal and private loans in our portfolio. It's assumed that students who might borrow private loans would now

Examples of Private Loan Products

The following examples were obtained from the websites of private lenders.[25] They illustrate the various types of private loan products that are available.

Broadly Available Undergraduate Loan
Students enrolled at least half-time in a degree or certificate program can borrow from $1,000 up to the full cost of education less any financial aid received. Applicants must attend a lender-approved school, make satisfactory academic progress (as determined by the school), and meet certain credit guidelines, including a satisfactory credit history and sufficient income to make required payments. Students may choose between a loan with no up-front fees, or a loan with origination fees (approximately 6.5 percent of the entire amount) but a lower interest rate. There are flexible repayment options, including deferral of payments until graduation and interest-only repayments. A fast, convenient application process is offered—students may apply online, by telephone, by fax, or by mail, and submit information including social security number, annual income, employer, and monthly rent/mortgage (for both themselves and co-borrowers, if applicable), in addition to authorizing a credit check. Students may receive funding in as little as 5 days.

Loan Targeted to Health Professional Programs
Undergraduate or graduate students in an approved, health-related discipline can borrow up to $25,000 annually with no income or employment requirement, up to the total cost of attendance (there is a $45,000 annual cap). They may also obtain $12,500 for residency costs. Payments may be deferred until nine months after graduation. Students must be enrolled at least half-time in a degree or certificate program at a lender-approved health professions school. Applicants also must be making satisfactory academic progress and meet certain credit guidelines, either with or without a co-signer. Students may choose between a loan with no up-front fees, or a loan with origination fees but a lower interest rate.

Law Student Loan and Bar Exam Loan
Law students who have reached their federal Stafford loan limit or who are not eligible for federal funding may obtain a private law student loan, with an annual minimum of $500 and an annual maximum of the cost of education minus other aid received. With a co-borrower, there is no lifetime limit on the loan; without a co-borrower, there is a limit of $150,000 (including all student debt). The school must certify the loan amount requested. Eligible students are enrolled at least half-time at an American Bar Association-accredited law school. The program offers an 80 percent approval rate, online credit pre-approval, co-signer release after the first 24 payments of principal and interest are made on time, and an extended repayment schedule (up to 25 years depending on the loan balance). Interest rates and fees are tiered based on the student's credit and vary according to the school attended; students with a creditworthy co-signer may have no fee at repayment. Students also may obtain a bar exam loan, with a limit of $10,000, if they are enrolled in their final year of study or have graduated within the last six months.

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[25] The names of the lenders and products have been withheld. The descriptions are intended as illustrations and in no way are meant to endorse a particular product or lender.

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borrow federal loans instead. We still will be available to service students' borrowing needs." Other lenders noted that regardless, students will need to borrow to finance their education and agreed that federal guaranteed loans are students' best option.

Summary and implications

Although private loans have been on the market for several years, their prevalence has increased in recent years as student demand for additional sources to finance postsecondary education has increased. Similarly, borrower demand and favorable market conditions also have encouraged growth in both the number and diversity of private loan products available.

Private loans share some similarities with federal student loans; however, the two types of loans have important differences. While both types of loans are to be used specifically for financing postsecondary education and carry individual loan limits, private and federal student loans vary with regard to their flexibility, risk level, terms and conditions, and rewards and services.

Competition thrives in the private loan market because of lenders' ability to create diverse loan products. Whereas lenders may have focused on the private loan market as a whole in the past, more lenders are now moving towards staking their claim in particular segments of the growing market, most notably specific professional programs and international education. At the same time, lenders are finding that some of their private loan products with more favorable terms and conditions have started offering competition to federal student loans.

Private lenders have worked to earn Stafford loan business while creating new private loan products and tailoring existing ones. Lenders also have continued to work with students, parents, and schools to provide the best products and service and to help students responsibly manage their increasing debt burden. Whether or not the private loan market will be able to support the ever-increasing number of loan products remains to be seen, but it is difficult to ignore the lender's role in the expanding market.

Chapter 3

What Are Institutional Practices Regarding Private Loans?

Financial aid offices across the country face a growing number of challenges when it comes to packaging financial aid that will fully meet students' financial need. Increased tuition and fees, decreased state subsidies for postsecondary education, and high demand for limited federal resources have led many financial aid offices to develop new philosophies on how to educate students and families about financing higher education. This chapter describes the various practices financial aid offices are using with regard to the following: packaging financial aid; responding to increased use of private loans on their respective campuses, including the use of preferred lender lists; and counseling students about responsible debt management.

Packaging

Financial aid offices and administrators have long played an important role in postsecondary education, primarily by assisting students to achieve their educational potential by packaging appropriate sources of financial aid (NASFAA 1999). In many students' and parents' eyes, the financial aid office stands between the student's admission to and enrollment at the school. Financial aid officers, more than anyone else on campus, are in a position to responsibly advocate for students' financial interests at the institutional, state, and federal levels and to discuss quality consumer information with students and families.

As the cost of postsecondary education continues to outpace federal sources of student financial aid, campus financial aid administrators find it increasingly difficult to put together attractive financial aid packages for students. According to the 2001 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (College Board and NASFAA 2002), approximately 63 percent of the students who applied for financial assistance had financial need (as defined by the federal need analysis formula). More troubling was that most students did not receive enough aid to meet their full need. On average, financial aid of all types (e.g., grants, loans, work-study) and all sources (e.g., federal, state, institutional) covered only 72 percent of students' demonstrated need.

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Private loans at community colleges

Community colleges throughout the United States have not had to deal with the increases in private loan volume experienced by many four-year postsecondary institutions. This largely is because community colleges have remained an affordable higher education option, where most students' financial need is met through federal, state, and institutional aid sources.

Students taking out private loans at community colleges generally represent less than 1 percent of total student enrollment at the institution. Additionally, students who receive private loans borrow, on average, smaller amounts than their private loan borrowing counterparts at four-year postsecondary institutions. For instance, at one two-year public institution in Michigan, only five students obtained private loans during the 2001-02 academic year; they borrowed a total of $18,372, or an average of $3,674. The financial aid office at the college noted that the few students who borrowed private loans did so because of their ineligibility for federal student loans. At the same time, the school reports that the number of students receiving private loans has remained about the same during the past several years.

Another community college in Michigan certified eleven private loans for its 9,900 student enrollment during the 2001-02 academic year, signifying about a 50-100 percent increase in private loan borrowing over the past five years. Unlike the community college mentioned above, the eleven students at this institution borrowed larger amounts on average, with the average private loan being $4,813. The financial aid office at this community college suggested that the larger loan amounts might be attributed to student borrowers wanting to support their current "lifestyles."

As long as community colleges remain affordable, private loans are not likely to become prevalent sources of aid at community colleges. Nevertheless, if community college tuition and fees begin to increase at rates similar to four-year institutions and if federal loan limits are not increased, public two-year institutions may have to begin paying additional attention to the private loan market.

When packaging financial aid, administrators prefer to package with grants; however, given the high demand for these limited resources, aid administrators have come to rely heavily on student loans. Aid administrators prefer to package federal loans, but for many, need still is not fully met after packaging the maximum Stafford loan amounts they are eligible to receive. Some financial aid administrators include a PLUS loan in the package at this point, but others consider discussing private loan options with students.

Attitudes toward the use of private loans to help finance postsecondary education have changed during the past several years. A financial aid administrator at a large public state university in the mid-Atlantic region commented, "It was only a few years

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ago that we didn't want to mention private loans to students as a stop gap; it kind of was like a four-letter word. Now, we feel this is the only choice."

Financial aid administrators are not the only ones expressing less reluctance toward private loans and borrowing in general. Financial aid professionals who have worked in the field for several years have noticed recent changes in students' attitudes toward borrowing. Twenty years ago it was not uncommon for financial aid packages to include 50 percent grant aid and 50 percent self-help (EFC, personal savings, and loans), yet students tended to be leery about borrowing to finance their education. Current financial aid packages are more likely to consist of a list of self-help options that sometimes do not even cover the student's entire cost of education, yet many students do not bat an eye. One financial aid administrator commented, "Students almost seem resigned to take out several loans to cover the cost of their educations." Another aid administrator surmised, "The reality is that we're living in a culture that has become desensitized to debt."

More students in recent years have approached financial aid officers and requested either different or additional options to finance their postsecondary educations. A financial aid administrator at a large public university in the Midwest commented, "Sometimes I think the students view our office as an ATM—they come in with new applications every couple of weeks to get more money." In some cases the financial aid office had packaged a PLUS loan for which the student's parents either were denied or simply declined. In other cases students may have been ineligible for federal financial aid for a variety of reasons, including not making satisfactory progress, taking too long to complete their educations, or reaching their federal loan limits. Approximately 50 percent of students accounted for their unmet need by working, but the other half turned to private loans to fill the gap (College Board and NASFAA 2002).

Institutional responses

Institutions have elected to address the use of private loans in a variety of ways. Some institutions have established procedures to discourage student use of private loans. A public two-year institution in California does not want its students turning to private loans as a way to "skirt the process" of federal financial aid. At this school any student who wants a private loan must go through a formal petitioning process, and even then students are encouraged to fill out the FAFSA because most of the school's students are eligible for some type of federal aid.

While it is not surprising that many community colleges process a minimal number of private loans, it is much more difficult for four-year institutions to do the same. Four-year private institutions face high tuitions and four-year public colleges struggle to balance increasing tuitions and decreasing state subsidies. Many of these four-year institutions are deliberately attempting to minimize the number of private loan borrowers. For example, a small state university in the Southwest prefers not to tell students about private loan options in an attempt to encourage the use of PLUS loans and limit the amount of student borrowing. Likewise, a

four-year liberal arts college in New England has a policy of calling students to discuss ways students can limit their borrowing and find options other than private loans. A financial aid administrator at a large public university in the Southwest believes that individual counseling has helped limit students' use of private loans: "One-on-one counseling makes a difference with some students. If we show them their total costs and the amount of money they would have to repay after school, they sometimes cancel their private loans." A top-tier four-year private institution in New England prefers to use tuition repayment plans to help limit private loan volume. A financial aid administrator at this school also commented on the financial aid office's approach to parents: "We try to get parents to understand that using PLUS loans is part of their responsibility in their partnership with the school, the financial aid system, and their student."

For-profit institutions face their own unique set of challenges when packaging aid for their students. Many students at proprietary schools need private loans either because of their enrollment in expensive programs that may have high non-tuition costs or because of unfortunate economic circumstances. Financial aid administrators at proprietary schools also recognize that there is a stigma attached to their type of institution that does not go unnoticed by lenders. An aid administrator at a proprietary school on the East Coast remarked: "Lenders make a lot of assumptions. For instance, because an institution happens to be a tech school, there often is an assumption that the students are of lower quality and therefore a higher risk to lenders."

Many proprietary schools and small four-year private liberal arts colleges that may not be top-tier institutions have a more difficult time attracting lenders and attractive loan products than well-known schools. An aid administrator in the Northeast believed that lenders provide better marketing, loan products, and service to large universities and elite institutions. She noted, "Smaller schools don't have the kind of loan volumes that attract lenders, so we can't get the lowest rates or the better deals for our students." These schools have used several methods to address the problem, with one of the more popular being a preferred lender list. Preferred lender lists contain a compilation of lenders and/or loan products that the institution either partners with or regards highly enough to recommend to students and families. In many ways a preferred lender list helps to level the playing field for institutions and student borrowers.

Preferred lender lists have been around for several years and originated in response to the lack of technology in the FFEL student loan process. Financial aid administrators, frustrated sorting through different loan application forms and various lender policies, started the preferred lender list to bring needed standardization, simplification, efficiency, and cost reduction to the student loan process (*Greentree Gazette*, March 2000, p. 14). The same has been true for private loan preferred lender lists. Many financial aid officers were struggling to manage the increased workload that comes along with private loans. An aid administrator at a private four-year institution in the Midwest commented, "We're processing so many different loans from so many different lenders—private loans have really become an administrative burden!" Preferred lender lists have helped financial aid offices efficiently manage the processing burden.

I N S T I T U T I O N A L   P R O F I L E

Making private loan counseling work

A large public university on the East Coast that enrolls approximately 28,000 students in its undergraduate and graduate programs has seen dramatic shifts in recent years with regard to the types of financial aid its students receive. For instance, in 1998-1999, the university had about $274,000 in private loan volume. By 2002, private loan volume jumped to $4.45 million. As of January 2003, the amount borrowed reached $7.4 million. Private loan borrowing at this university now has surpassed its Federal Pell Grant funds.

At the same time, the university's PLUS volume has declined from $23 million to $13 million in recent years. The financial aid office at the university attributes this decrease to the better interest rates and other rewards being offered by private loans. Also, the institution has adopted a budget payment plan that allows some parents to pay college bills over time without having to obtain PLUS loans.

Two groups of students constitute the majority of private loan borrowers at this school. The university's popular and extensive study abroad program often leads juniors and seniors to borrow private loans to help pay for travel and expenses overseas. Likewise, the school's architectural program requires students to spend one year abroad. Out-of-state students comprise the second group of major private loan borrowers. Among undergraduates, state residents only account for 12 percent of the school's private loan volume. Parents of out-of-state students often are unwilling or unable to pay the higher costs, so the students rely heavily on private loans.

Among graduate students, the largest private loan borrowers at the university were enrolled in health care programs. Federal loan limits do not meet the full need of students in the medical school program, who have total education costs of more than $30,000 each year. It is not uncommon for students in different graduate and professional programs at the university to borrow at least $10,000 each year in private loans.

Private loans became even more appealing to students at the end of fiscal year 2002, when the federal government ended its policy of allowing schools with low default rates to disburse student loan funds to students within 30 days. After October 1, all schools had to delay disbursements of loans for at least 30 days. Once this rule was enacted, private loan lenders advised prospective borrowers that they could have their loan funds disbursed with no delay. This proved to be a great incentive for students who needed money fast. Additionally, some private loan products offered students a nine-month grace period as opposed to federal loans' six-month grace period before repayment began.

With the school's private loan volume on the rise, the university instituted extensive counseling for students choosing to obtain these loans. Every student who wants to get a private loan must participate in an on-line entrance interview. This entrance interview is separate from the federal loan entrance counseling; students who want a

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federal loan and an private loan must sit for two different loan entrance counseling sessions. The electronic private loan counseling session requires students to complete a budget that shows their total costs and their expected sources of financial support. During the loan counseling sessions, students calculate their expected income after graduation, expected monthly loan payments, and other variables so that the student can have the best information available before making the decision to borrow a private loan. As a result, the university's private loan default rate is just 0.7 percent, comparable to the university's 1.4 percent default rate for federal student loans.

When establishing a preferred lender list, schools take a variety of criteria into consideration. Some of the most cited criteria include: competitive pricing; timely processing, approval, and disbursement of loan funds; a willingness to adapt to the school's procedures; ability to provide students electronic or web-access to their accounts; responsible marketing practices; an array of borrower benefits, rewards, and incentives; and knowledgeable customer service representatives. Many institutions also seek national lenders to ease the process for geographically diverse student borrowers, and some institutions want lenders who work well with guarantors in the institution's state (*Greentree Gazette,* March 2000, p. 18).

Some schools have turned to private loan preferred lender lists because of the overwhelming amount of information on the internet. While aid administrators regard the internet as a powerful and beneficial tool when comparative shopping for loans, they also are concerned about the misrepresentation of certain loan products on the web. By establishing a preferred lender list, colleges and universities are able to provide assurance to their students that the school has an established relationship with the lenders on the list and that the loan products they offer are credible.

Several financial aid administrators commented that private lenders often are willing to offer better private loan products to students for the chance to win the school's federal loan volume. Additionally, some schools have found that providing a large percentage of their federal loan volume to a particular lender has potential benefits. A financial aid administrator at a four-year private college in California cited an agreement the school has with a lender: "If we give the okay to the lender that the student is worthy of the loan—likely to persist and graduate—the lender will make the loan available to the student, even if the student was initially rejected for the loan."

Private loan counseling

While many financial aid offices have found ways to streamline the private loan process for students, the majority of these same offices struggle to provide counseling for these same loans. Financial aid offices at institutions participating in federal student aid

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programs are well-versed in counseling procedures for federal student loans. Entrance and exit counseling have become the standard; students are told what is expected of them as borrowers, and they leave school with a clear sense of what they owe. Many schools have devised sanctions, such as withholding grades, academic transcripts, and even degrees, to guarantee students attend their federal loans exit interview.

The large number of diverse private loan products, while helpful for meeting numerous students' needs, also creates problems when it comes to developing counseling methods. Unlike federal student loans, financial aid offices do not have a clear sense of either the amount or the type of private loans students hold. A financial aid administrator at a four-year private institution in the Midwest commented, "For every private loan we do know about, there's probably another one that we don't. There's really no way for us to know how much our students are actually borrowing."

Moreover, even when colleges and universities attempt to be proactive by providing literature to students and parents about financial responsibility and debt management, the materials often go unread, or the information is coming too late. An aid administrator at a large public university in the Midwest explained: "Undergraduate debt? Heck, these students are leaving *high school* with debt! Students are modeling their parents' behavior, and parents are borrowing like crazy and going into debt." Another aid administrator at the same school remarked: "Many undergraduates are surprised to see how much they actually owe when they have their exit interview before graduation. A lot of them regret borrowing so much when they realize they used the loan funds for pizza money."

Financial planning workshops and sessions at orientation have been helpful to some degree; nevertheless, financial aid administrators remain concerned about students' overall lack of financial knowledge. An aid administrator at a public university in California remarked: "Students don't know the basics—they really don't know what financial aid is, what loans and grants are. The students don't understand what the lenders are saying, and this info is constantly changing." Aid administrators also are concerned about the many students who pay little or no attention to interest rates and repayment terms when applying for private loans. Another aid administrator in California summed it up: "In most cases, what students want is money, and they want it fast. The students are more concerned about getting the money they need to remain in school *at that moment,* so they end up applying to the lenders known to have good acceptance rates and quick turnaround. They're *not* thinking about how burdensome it might be to pay the loan(s) back in the future."

Although some financial aid administrators question whether providing counseling for private loans would in any way curb student borrowing, most do agree that some type of counseling should be provided. Several aid administrators in California agreed that private loan counseling is the responsibility of everyone involved—lenders, students, and institutions. The aid administrators believe that schools should require students to attend entrance and exit counseling for private loans with informative materials provided by lenders.

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Summary and implications

Financial aid offices are facing an increasing number of challenges when they package financial aid for students. Although most financial aid administrators would like to package aid consisting entirely of grants and federal student loans, the reality is that these sources of aid are limited and cannot fully meet many students' financial need. Discussing the option of private loans and including them in students' financial aid packages has become much more common in recent years. Nevertheless, some financial aid offices remain hesitant to recommend private loans because of a concern about students' excessive borrowing and increasing debt levels.

Colleges and universities' responses to the use of private loans on their respective campuses have been varied; however, the decision to use a preferred lender list is becoming increasingly popular. Many schools cite a need for standardization and efficiency in order to ease the financial aid processing burden. Another reason is institutions' increasing comfort with trustworthy lenders and reliable loan products.

As the private loan process becomes more streamlined at postsecondary institutions, financial aid administrators are questioning whether or not counseling, much like that for federal student loans, should be required for students obtaining private loans. Although there is little consensus on what the counseling should include, most aid administrators agree that the institutions, students, guarantors, and lenders should all be involved in the process.

Chapter 4

Who Uses Private Loans?

In order to understand the extent and growth of the private loan market, it is essential to examine the types of students who are obtaining these loans, and the types of colleges and universities at which they are likely to be enrolled. In particular, policymakers often are interested in whether these loans are being used by "traditional" students or "non-traditional" students, by undergraduates or graduate/professional students. This chapter explores these issues separately for undergraduate, professional, and other graduate students.[26] For each group, the following sections describe the demographic and enrollment characteristics of private loan borrowers, the sub-sets of students who are most likely to borrow private loans, and the students who are likely to borrow larger amounts of private loans. The analyses reflect the individual characteristics associated with private loan borrowing.[27]

Most of the data in this chapter are drawn from the 1999-2000 National Postsecondary Student Aid Study (NPSAS), a nationally representative survey of undergraduate, professional, and graduate students. Although the percentages and averages may have changed since then, the data provide detailed information about the students who use private loans.

Overall, professional students are more likely to obtain private loans than graduate and undergraduate students. In 1999-2000, slightly less than 4 percent of undergraduates obtained these loans, with an average amount of $5,100. Meanwhile, 16 percent of professional students and 3 percent of graduate students borrowed private loans, with average amounts of $10,076 and $9,140, respectively.[28] Estimates vary on the

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[26] Professional students are those pursuing degrees in the following fields: dentistry, medicine, optometry, osteopathic medicine, pharmacy, podiatric medicine, veterinary medicine, chiropractic, law, and theological professions. Other graduate students are those pursuing all other programs, including master's degrees, doctoral degrees, post-baccalaureate certificates, and other degrees. For the sake of simplicity, "other graduate students" are referred to as "graduate students" in the report.

[27] The analyses do not attempt to identify the causes of private loan borrowing, but rather attempt to paint a picture of the types of students who use private loans. This is an important distinction because many of the characteristics associated with private loan borrowing are related to each other. In order to separate the various relationships, a multivariate analysis would be necessary.

[28] Data from other sources provide similar figures. For example, according to 1999-2000 SUFAPPP data (College Board and NASFAA 2002), 7 percent of undergraduates received private loans during the study period. Responses from the web-based survey developed for this report put the percentage of all students (undergraduate and graduate/professional) at about 8 percent overall, with an average amount of private loans of $7,741 for undergraduates and $8,582 for graduate/professional students.

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proportion of total private loan volume obtained by each group of students, but undergraduates likely receive at least half of the loan volume.[29] This is not surprising given that undergraduates comprise more than three-quarters of enrolled students (NCES 2002); however, the data suggest that graduate and professional students receive a disproportionate share of private loan volume.

Undergraduates

The demographic and enrollment characteristics associated with students who borrow private loans offers one perspective on the question of who uses them. In general, undergraduates who borrowed private loans in 1999-2000 tended to have certain characteristics (see Figure 4.1).[30] The majority were twenty-three years old or younger, financially dependent, attending school on a full-time basis, working part-time while enrolled, and/or pursuing bachelor's degrees. Many had households of at least four people. The majority were in the middle income quartiles (as was the undergraduate population as a whole). Private loans appear to appeal to traditional undergraduates; in fact, almost half of students who borrowed private loans had no non-traditional characteristics at all, while an additional 20 percent had only one non-traditional characteristic.[31] About three-quarters of students who obtained private loans attended four-year institutions (public or private not-for-profit).

Most of these private loan borrowers attended institutions with tuition and fees of at least $5,000, and almost half had calculated financial need of $10,000 or more. Under the first definition of unmet need (COA less EFC less grants and federal need-based aid), about three-quarters of private loan borrowers had unmet need of $1,000 or more. Not surprisingly, under the second definition (where all aid is subtracted), three-quarters of these borrowers had no remaining need, suggesting that the private loan borrowing was helping to meet their COA.

More than three-quarters of private loan borrowers also borrowed federal Stafford loans—39 percent borrowed only a Stafford subsidized loan, 13 percent borrowed only an unsubsidized loan, and 26 percent borrowed both. About half of private loan borrowers also had borrowed the maximum possible amount under the federal Stafford loan program (subsidized and unsubsidized loans).

Another perspective on this issue can be gained by analyzing the particular characteristics that are associated with a greater likelihood of borrowing private loans. The analysis found that undergraduates with certain attributes were more likely to obtain private loans than their peers (see Figure 4.2):

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[29] As noted in an earlier chapter, the College Board estimates less than half of all borrowers are undergraduates; the NPSAS data lead to an estimate of about two-thirds undergraduate (a reversal from five years previous); and the results of the web-based survey developed for this report show a figure of more than 85 percent. It is possible that private loan volume has been gradually shifting in the direction of undergraduates, although the available data cannot support or disprove this possibility.

[30] Note that detailed tables on the data in this section are available in the Appendix, Tables A.2 to A.4.

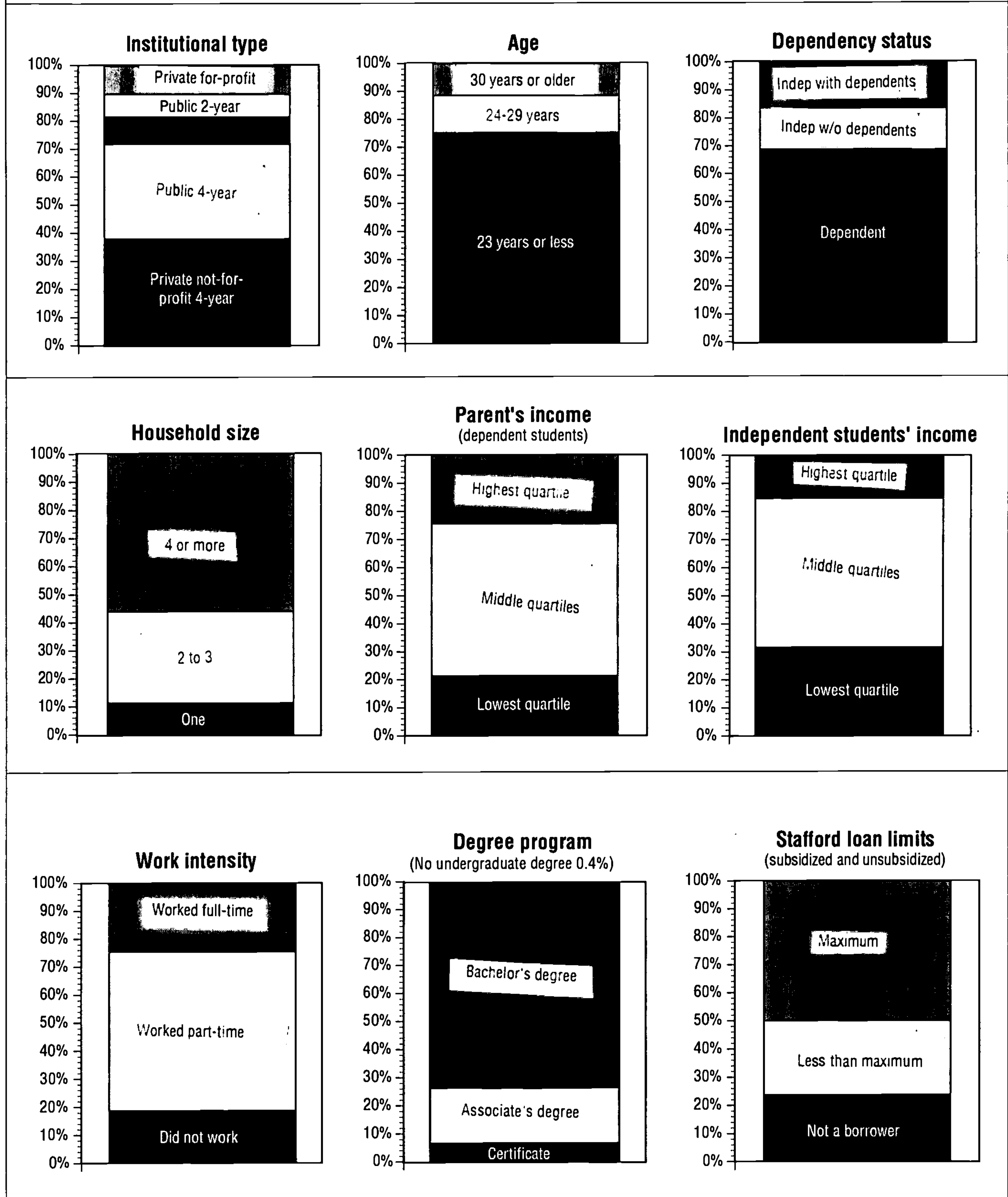
[31] Non-traditional characteristics are defined as delayed enrollment, no high school diploma, part-time enrollment, financial independence, dependents other than a spouse, single parent status, and working full-time when enrolled. Note that many of these characteristics are overlapping. The index was created in Horn 1996.

- **Institutional characteristics.** Undergraduates at private not-for-profit four-year institutions were more likely to obtain private loans than those at other types of institutions. Interestingly, undergraduates attending institutions in New England, the Mid East, and the Plains region were more likely to receive private loans than their peers in other regions of the country.
- **Demographic/background characteristics.** Undergraduates who were twenty-three years of age or younger, single, and financially dependent on their parents were more likely to obtain private loans than their counterparts who were thirty and older, independent, and/or married. There were not large differences by income quartiles in the likelihood of obtaining private loans; of dependent undergraduates, students in the middle quartiles were slightly more likely than the highest quartile, while among independent students, those in the lowest quartile were more likely than the highest quartile to obtain private loans. There also were not major differences by gender or race/ethnicity.
- **Academic/enrollment characteristics.** Undergraduates attending college on a full-time basis for the full year were more likely to obtain private loans, as were students living on campus, and those pursuing bachelor's degrees. In addition, undergraduates who worked part-time were more likely to obtain these loans than those who worked full-time, or did not work—suggesting a potential trade-off between work and private loans as a vehicle for financing college (explored further below).
- **Price and financial aid issues.** Undergraduates who faced higher prices (including both tuition and non-tuition expenses), and those who had higher calculated financial need, where more likely to obtain private loans. In addition, students who borrowed the maximum amounts possible under the federal Stafford loan program (subsidized and unsubsidized) were more likely to obtain these loans than students who borrowed less than the maximum or who did not borrow federal student loans. Subsidized loan borrowers were about as likely to obtain private loans as unsubsidized loan borrowers.

Looking at these characteristics overall suggests that "traditional" undergraduates were more likely to obtain private loans than non-traditional students: undergraduates without any non-traditional characteristics were the group most likely to receive these loans. Taken together, the data also suggest that undergraduates with specific financial circumstances—those with greater financial need, attending more expensive institutions, reaching federal student loan limits, and/or facing increased expenses such as on campus housing or high non-tuition expenses—tend to obtain these loans more frequently than their counterparts.[32] These groups overlap. For example, a higher percentage of traditional students attend higher priced institutions—fully three-quarters of students attending institutions with tuitions of $10,000 or more were traditional, while only 22 percent of students attending colleges with lower tuitions were traditional. At the same time, almost half of all undergraduates attending these higher priced institu-

[32] Note that these tendencies are based on aggregate data; clearly there may be other groups of students who are likely to obtain private loans given their specific circumstances but who do not show up in the aggregates. As Chapter 5 describes, for example, international students make up a large proportion of private loan recipients at certain institutions, while at other institutions older students appear to be a significant group.

Figure 4.1: Percentage distribution of undergraduate private loan borrowers, by selected characteristics, in 1999-2000



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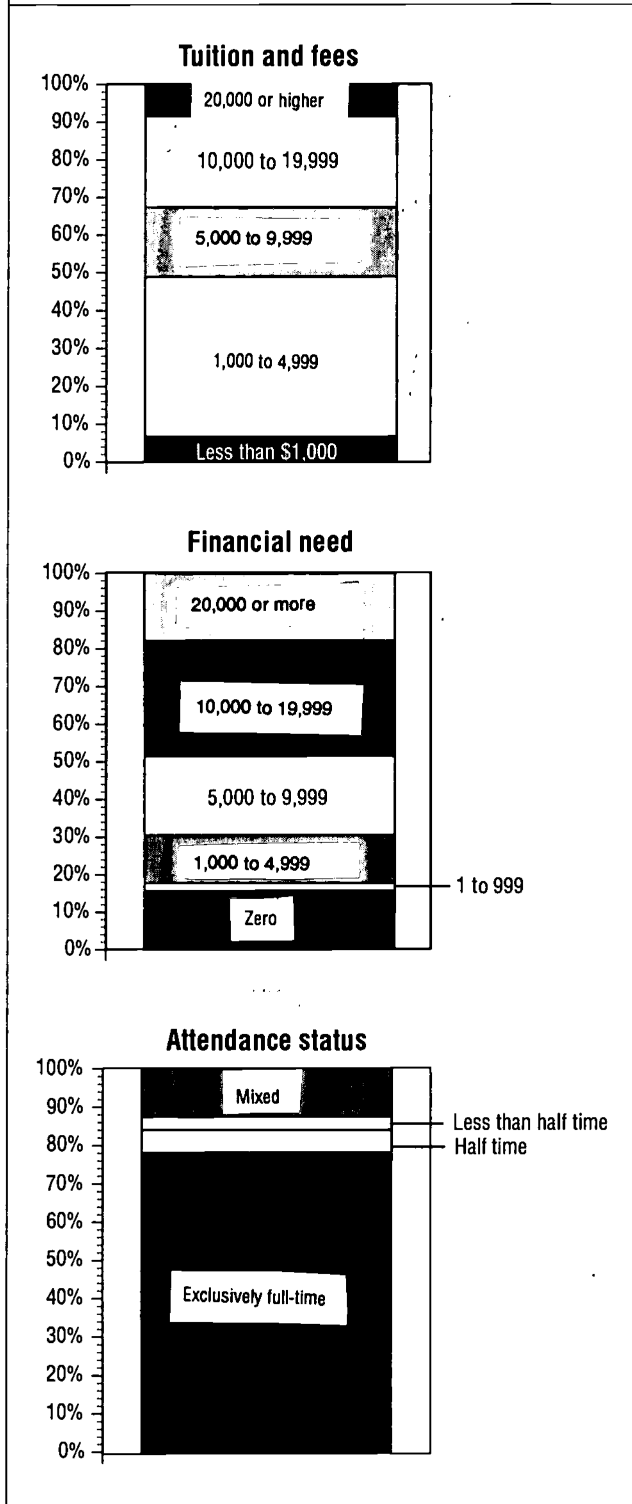

tions had borrowed the maximum federal Stafford loans for which they were eligible.

Undergraduates with all of these characteristics—traditional students at relatively expensive (tuition of $10,000 or more), private not-for-profit four-year institutions who had borrowed the maximum Stafford amount for which they were eligible[33]—might be expected to be particularly likely to obtain private loans. Yet, even within this group, less than a quarter of students obtained such loans. Interestingly, within this specific group of undergraduates who are particularly likely to receive private loans, there appeared to be no differences in the likelihood of borrowing a private loan by income quartile.[34] However, there appear to be some small trade-offs with other sources of funding. For example, within this group of students, those whose parents had not borrowed PLUS loans were slightly more inclined to have obtained private loans.

Some other interesting aspects of the data stand out:

- **Although "high need" undergraduates were more likely to obtain private loans, it appears that the "need" may be more defined by cost of attendance than by ability to pay.** In the aggregate, few differences existed across the various levels of

[33] Note that less than 5 percent of all undergraduates had all of these characteristics in 1999-2000 (27 percent of all undergraduates were traditional; of these, 26 percent attended private not-for-profit four-year institutions; of these, 46 percent borrowed the maximum Stafford loan for which they were eligible).

[34] A multivariate analysis would be necessary to examine the relationships in detail.

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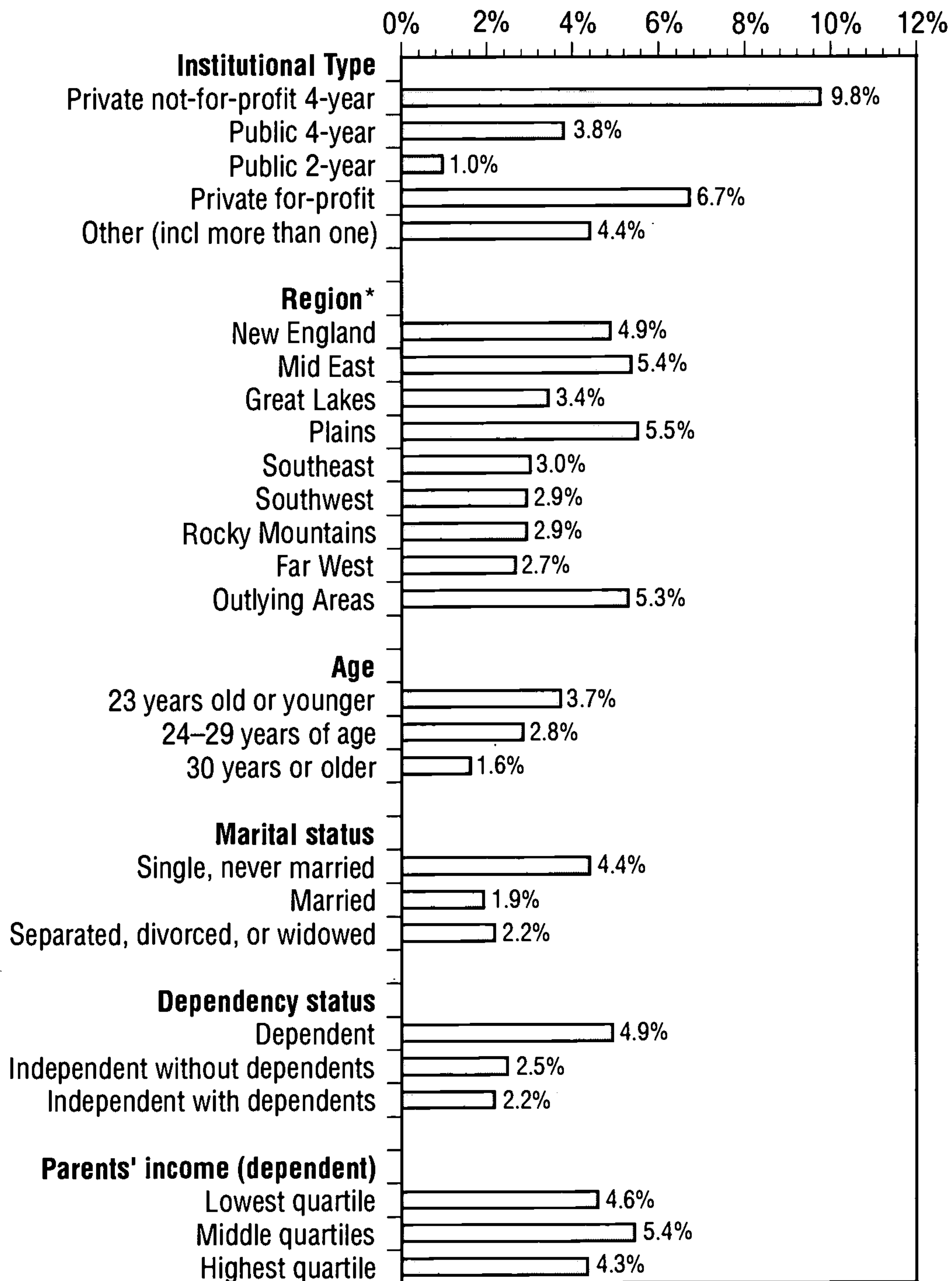
Figure 4.2: Percentage of undergraduates receiving private loans in 1999–2000, by selected characteristics



* New England states are Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. Mid East states are Delaware, District of Columbia, Maryland, New Jersey, New York, and Pennsylvania. Great Lakes states are Illinois, Indiana, Michigan, Ohio, and Wisconsin. Plains states are Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota. Southeast states are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. Southwest states are Arizona, New Mexico, Oklahoma, and Texas. Rocky Mountains states are Colorado, Idaho, Montana, Utah, and Wyoming. Far West states are Alaska, California, Hawaii, Nevada, Oregon, and Washington. Outlying areas include Puerto Rico.

Figure 4.2 (continued)

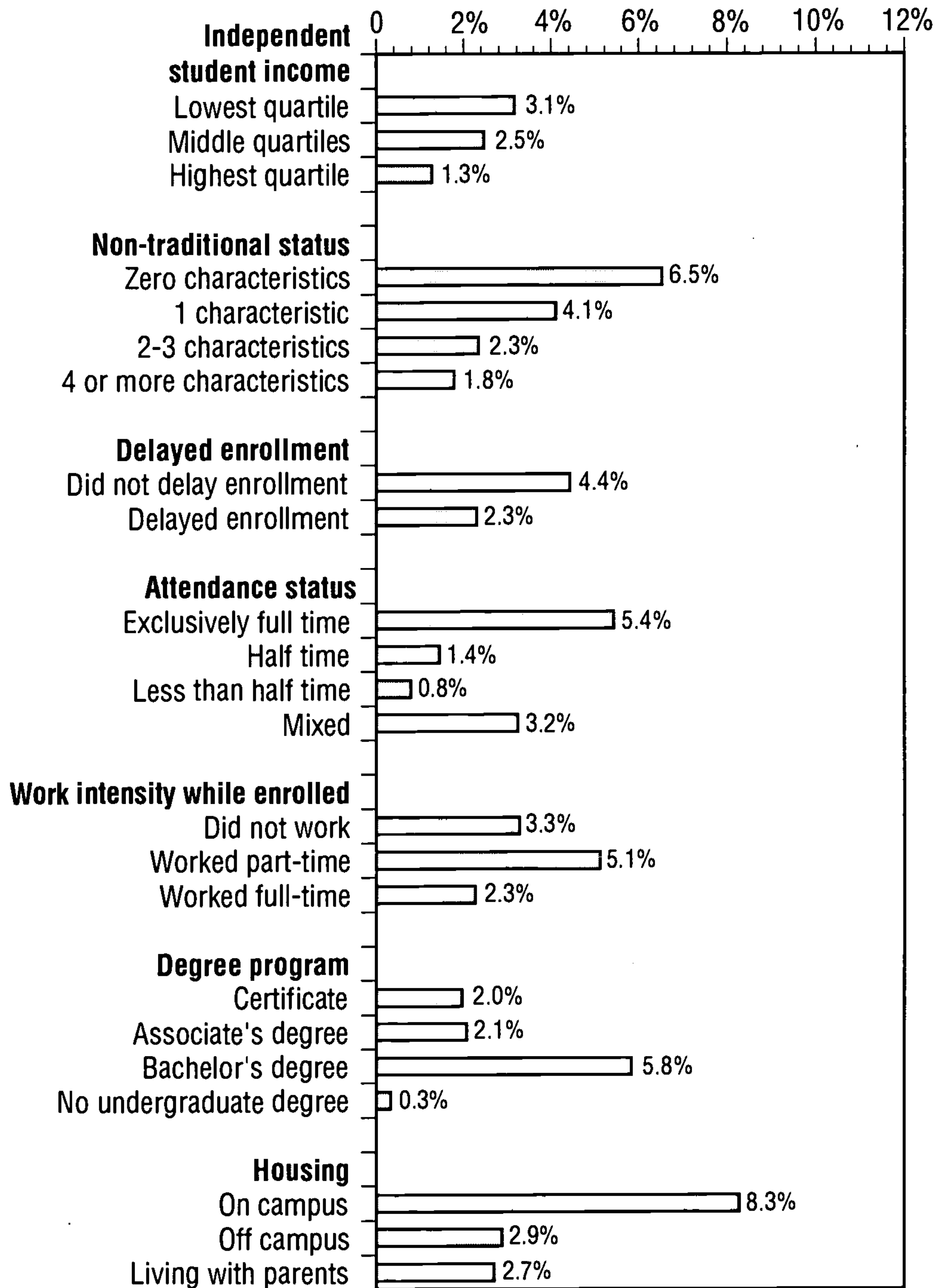


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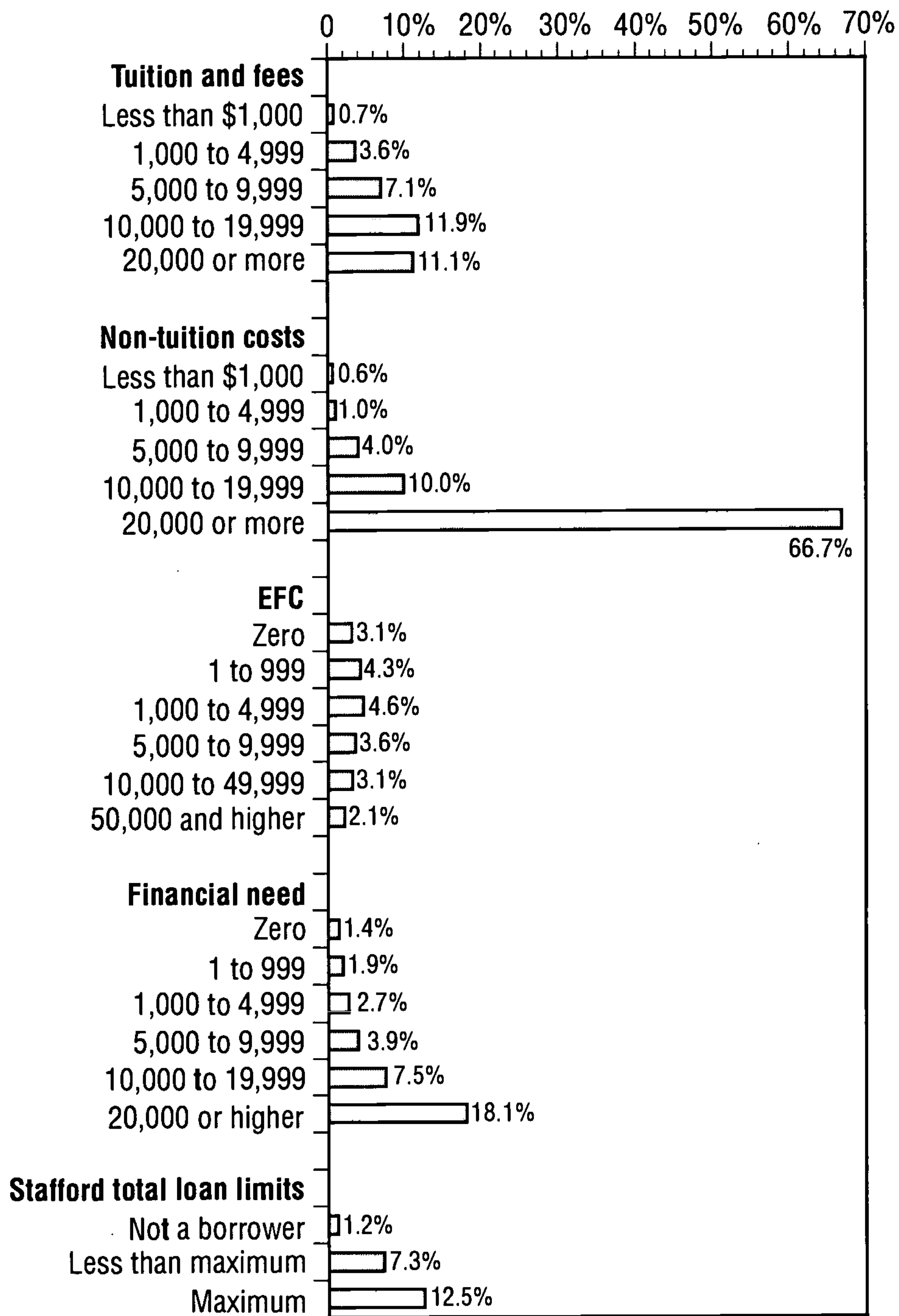
Figure 4.2 (continued)



Source: NCES 1999–2000

EFC (representing ability to pay) in students' likelihood of getting private loans, while the likelihood increased substantially as the cost of attendance increased. For both dependent and independent students, students in the lowest income quartile were the most prone to have high calculated need. However, of those students with high need (attending all institutions, regardless of price), those in the highest income quartiles were more likely than those in the lowest income quartiles to borrow private loans (see Figure 4.3). On the other hand, when looking just at students who attended high-priced institutions (at least $10,000 tuition and fee charges), those in the lowest and middle income quartiles were more likely to borrow private loans than those in the highest income quartile.[35]

- **Undergraduates with very high non-tuition costs, though a small minority, were especially likely to borrow private loans.** About 4 percent of private loan borrowers had non-tuition expenses of at least $20,000 (compared with less than 1 percent of non-borrowers).[36] Two-thirds of all undergraduates with high non-tuition costs received private loans; of students at the federal loan maximums, 85 percent obtained such loans. These non-tuition expenses may be related to books and supplies, or computers and special equipment. Most students with high non-tuition costs are non-traditional. These students also tend to enroll at private four-year institutions, pursue bachelor's degrees, and are more likely to have majors in the sciences, engineering, or other technical/professional fields. It is possible that these high non-tuition costs are required for specific programs.
- **Receipt of private loans is closely tied to federal student loan receipt, especially for those who borrowed the maximum Stafford loan amount for which they were eligible.** As mentioned above, the majority of undergraduates who borrowed private loans also borrowed federal student loans (78 percent borrowed a subsidized or unsubsidized Stafford loan), and students who borrowed federal Stafford loans were more likely to obtain private loans. Further, *half* of the undergraduates who borrowed private loans were at the maximum in either the subsidized or unsubsidized Stafford loan program (or combined). Of students who borrowed at the total Stafford loan maximum, there was some variation in the likelihood of receiving private loans by income quartile, but in all cases maximum borrowers were more likely to receive private loans than less-than-maximum borrowers or non-borrowers (with slightly higher percentages for dependent students) (see Figure 4.4).
- **A trade-off between working part-time and obtaining private loans appears to exist for some students.** Of dependent students who worked during the school year, those who worked part-time were more likely to receive private loans than those whose worked full-time, and those who received private loans were more likely to work part-time than full-time. The same was true for independent undergraduates who worked (see Figure 4.5). Private loan borrowers and non-borrowers had about the same percentage of students who did not work at all. This suggests the possibility of a trade-off between working more hours and obtaining private loans.

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[35] Note that for independent students, these differences were not statistically significant.

[36] Note that the NPSAS variable used to define non-tuition costs relates to non-tuition expense allowances that are included in the COA (otherwise known as the student budget), including room and board, books and supplies, transportation, and personal expenses.

- **It is difficult to determine whether there is a trade-off between PLUS loans and private loans.** The next chapter suggests that aid administrators perceive that this trade-off exists. At the broadest level, however, the data show that students whose parents obtained PLUS loans seem to be *more* likely to receive private loans. Nevertheless, the relationship gets obscured by the fact that "high borrowers" are more likely to borrow from every source.[37] When one examines dependent students with high need who were at the federal loan maximums and did not work, those who received PLUS loans were slightly *less* likely to receive private loans than those who did not receive PLUS loans. And, for the narrow group of students examined above (traditional students at relatively expensive, private four-year institutions who were at the federal loan maximums), those whose parents had not borrowed PLUS loans were slightly more likely to have obtained private loans than students with these characteristics whose parents did borrow PLUS loans.

- **Undergraduates enrolled in some regions of the country are more likely to obtain private loans, in part because those regions have larger proportions of high priced and private not-for-profit four-year institutions.** Undergraduates at institutions in New England, the Mid East and the Plains states (which enroll about a quarter of all students) appear to be more likely to obtain private loans. Tuition levels in New England and the Mid East are higher than the averages for other regions, and these regions have higher proportions of students in private not-for-profit four-year schools. When one examines only traditional students at private not-for-profit four-year or high-priced institutions in order to "control" for these factors,[38] students in New England and the Mid East are no longer more likely to obtain private loans, suggesting that the composition of students and colleges in these regions can account for much of the difference. It is less clear why students in the Plains region are more likely to receive private loans. In general, however, undergraduates in the Plains region are more likely to borrow (from any source as well as from most specific sources, such as federal subsidized, unsubsidized, and state loans).[39]

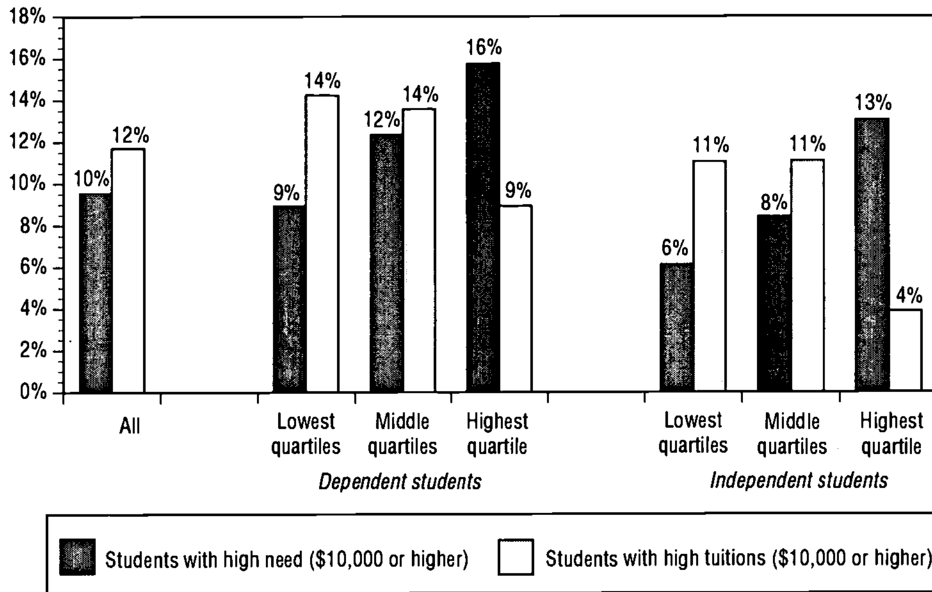
In general, undergraduates who were more likely to borrow private loans also tended to borrow greater amounts, on average. In particular, undergraduates attending private institutions, those attending out of state, and those who were at the federal student loan maximums tended to borrow larger amounts of private loans, on average, than their counterparts without these characteristics who borrowed private loans. The same was true for undergraduates facing higher tuitions and higher levels of financial need/unmet need. For example, borrowers who faced a total cost of attendance of less than

[37] Generally, "high borrowers" refers to students who borrow relatively high amounts. A report by the National Center for Education Statistics defined high borrowers as undergraduates who borrowed $6,625 or more from all sources in 1999-2000, and found that these borrowers tended to be more likely than low borrowers to borrow all types of loans. See Clinedinst, Cunningham, and Merisotis 2003.

[38] Again, a multivariate analysis would be necessary to examine the relationships in detail.

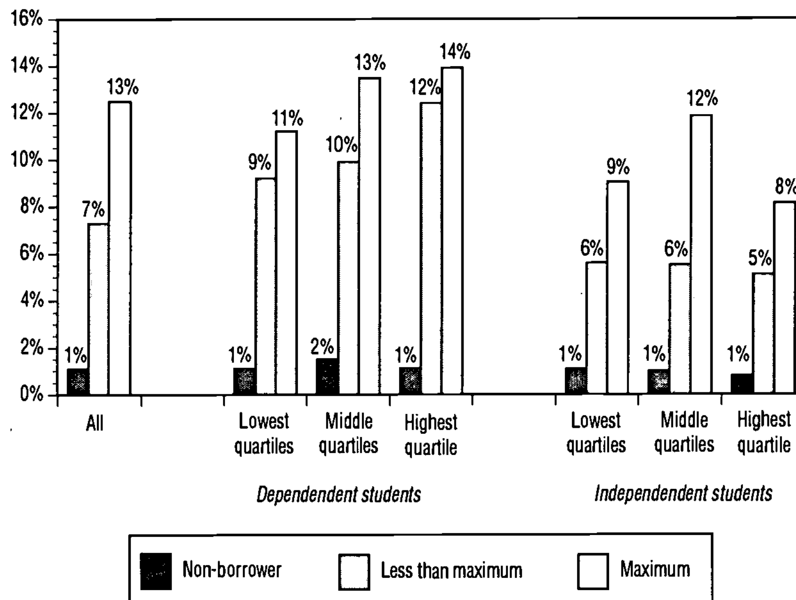
[39] Undergraduates in the Plains region are relatively likely to attend private not-for-profit institutions; however, this does not account for the difference in their inclination to borrow private loans. Average tuition and fee levels are similar to the average for all undergraduates, as are the percentage of students receiving Pell Grants and the average EFC. Of interest, undergraduates in the Plains region tended to receive slightly less parental support for non-tuition expenses (and tuition, to some extent) than did undergraduates in other regions.

Figure 4.3: Percentage of undergraduates receiving private loans in 1999–2000, for students with relatively high need and tuition levels



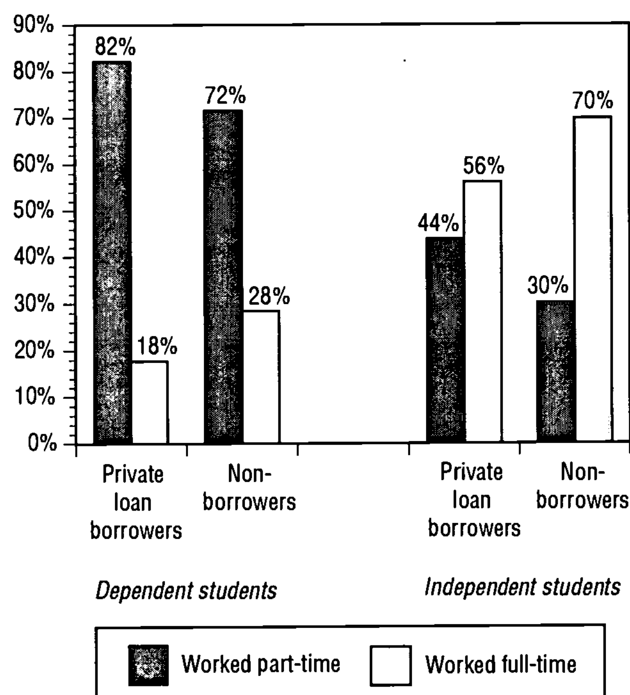
Source: NCES 1999–2000

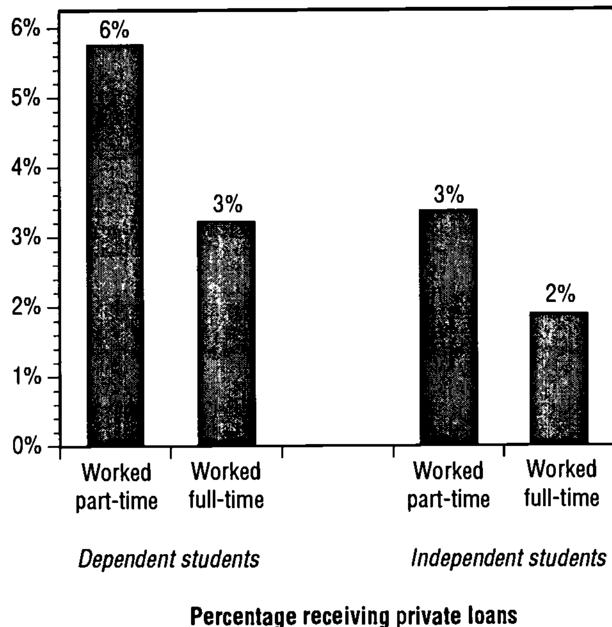
Figure 4.4: Percentage of undergraduates receiving private loans in 1999–2000, by income quartile and Stafford total loan status



Source: NCES 1999–2000

Figure 4.5: Potential trade-off between working part-time and obtaining private loans, for undergraduates who worked while enrolled, 1999–2000





Source: NCES 1999–2000

$5,000 borrowed $1,346 in private loans, on average, while those facing prices of $30,000 and higher borrowed an average of $9,466. Private loan borrowers who had $20,000 or more in "unmet need" (COA less EFC less grants and federal need-based aid) borrowed $16,643 on average, which represented a substantial portion of their unmet need.

In some cases, students with different characteristics than those mentioned above borrowed larger average amounts of private loans. For example, private loan borrowers in their fifth year of study borrowed more, on average, than students in their first year—$7,079 for fifth year students compared to $4,182 for first year students—perhaps because they were no longer eligible for federal student loans.

Graduate/professional students

Professional students (those pursuing law, medicine, and other professional degrees) and graduate students (master's degrees, doctoral degrees, post-baccalaureate certificates, and others) are often treated as a homogenous group. However, professional students were significantly more likely to borrow private loans than graduate students. The two groups also differ in other important respects. Following are differences noted among all professional and graduate students, not just those who borrowed private loans (see Figure 4.6). Given these differences, it is worth examining professional

students and graduate students who borrowed private loans in 1999-2000 separately, as is done in subsequent sections.

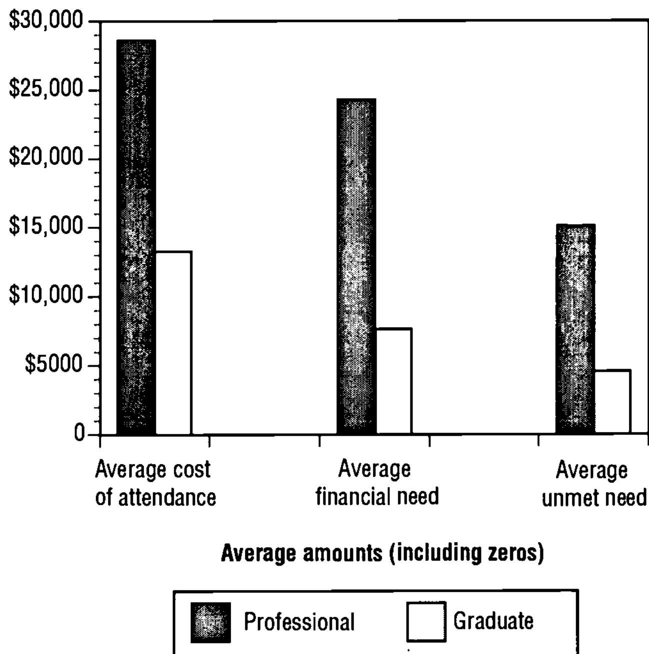
- Professional students tend to face higher levels of tuition and have higher levels of financial need. The total cost of attendance averaged $28,597 for professional students in 1999-2000; in comparison, the total cost was $13,269 for graduate students.
- Professional students also are substantially more likely to receive most forms of financial aid than graduate students (with the exception of employer aid and assistantships/fellowships). Almost three-quarters of professional students received subsidized Stafford loans, and 63 percent received unsubsidized loans; compared with 21 percent and 17 percent, respectively for graduate students.
- Despite this aid, on average, professional students still faced higher levels of unmet need (defined as the cost of attendance minus EFC minus grants and other federal need-based aid). Note that all graduate and professional students are considered to be financially independent for financial aid purposes.
- Professional students were also less likely to work, especially on a full-time basis. About half of professional students worked while enrolled (38 percent worked part-time, 12 percent worked full-time), while about 85 percent of graduate students worked (25 percent part-time, 60 percent full-time).

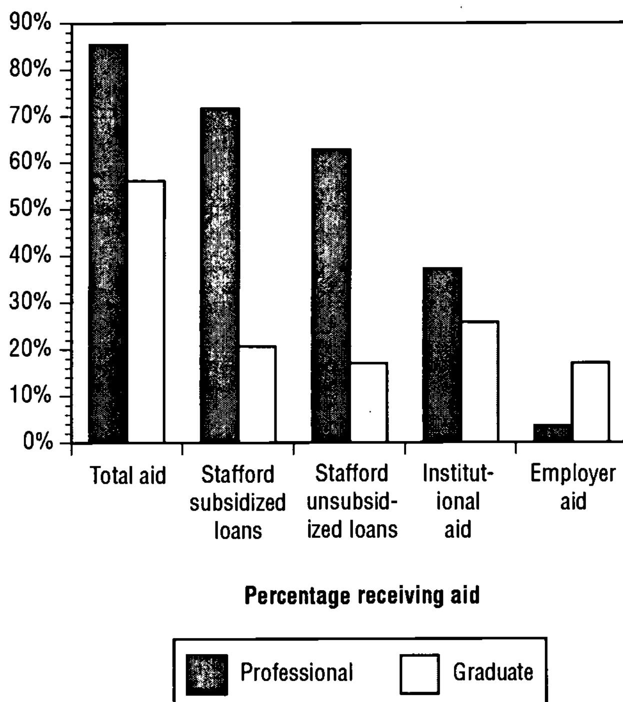
As with undergraduate students, the data on graduate and professional students allow the identification of demographic and enrollment characteristics associated with students who borrowed private loans in 1999-2000. Of professional students who borrowed private loans, 65 percent were pursuing law degrees and an additional 16 percent were pursuing medicine. Law students clearly are an important part of the graduate/professional private loan market; in fact, this group constituted more than a quarter of all graduate and professional private loan borrowers. Of graduate students who obtained private loans, the largest proportions were pursuing other master's degrees (29 percent), MBA programs (21 percent), education-related master's degrees (19 percent), and other Master of Science degrees (16 percent).

Certain characteristics were prevalent for both professional students and graduate students who borrowed private loans (see Figure 4.7). The majority of both groups of borrowers attended private not-for-profit institutions, attended college in-state, lived off campus, and enrolled on a full-time basis. The majority did not have dependents, and in fact most were their own household of one (77 percent of professional students, 56 percent of graduate students). In addition, they tended to attend relatively high priced institutions and had high financial need, especially professional students. For example, 73 percent of professional students who borrowed private loans faced total prices of $30,000 or higher, and 85 percent had financial need calculated to be $20,000 or more; the respective figures for graduate students were 40 percent and 47 percent.

The majority of both groups had unmet need of at least $10,000 under the first definition (subtracting grants and federal need-based aid), but no remaining need under the second definition (subtracting all aid). Most private loan borrowers had taken out

Figure 4.6: Selected characteristics of professional and graduate students, 1999–2000





Note: Graduate includes master's, doctorate, post-BA certificate, and others.
Source: NCES 1999-2000

both subsidized and unsubsidized Stafford loans (81 percent of professional students and 49 percent of graduate students), and substantial proportions had taken out the maximum for which they were eligible—77 percent of professional students and 32 percent of graduate students.

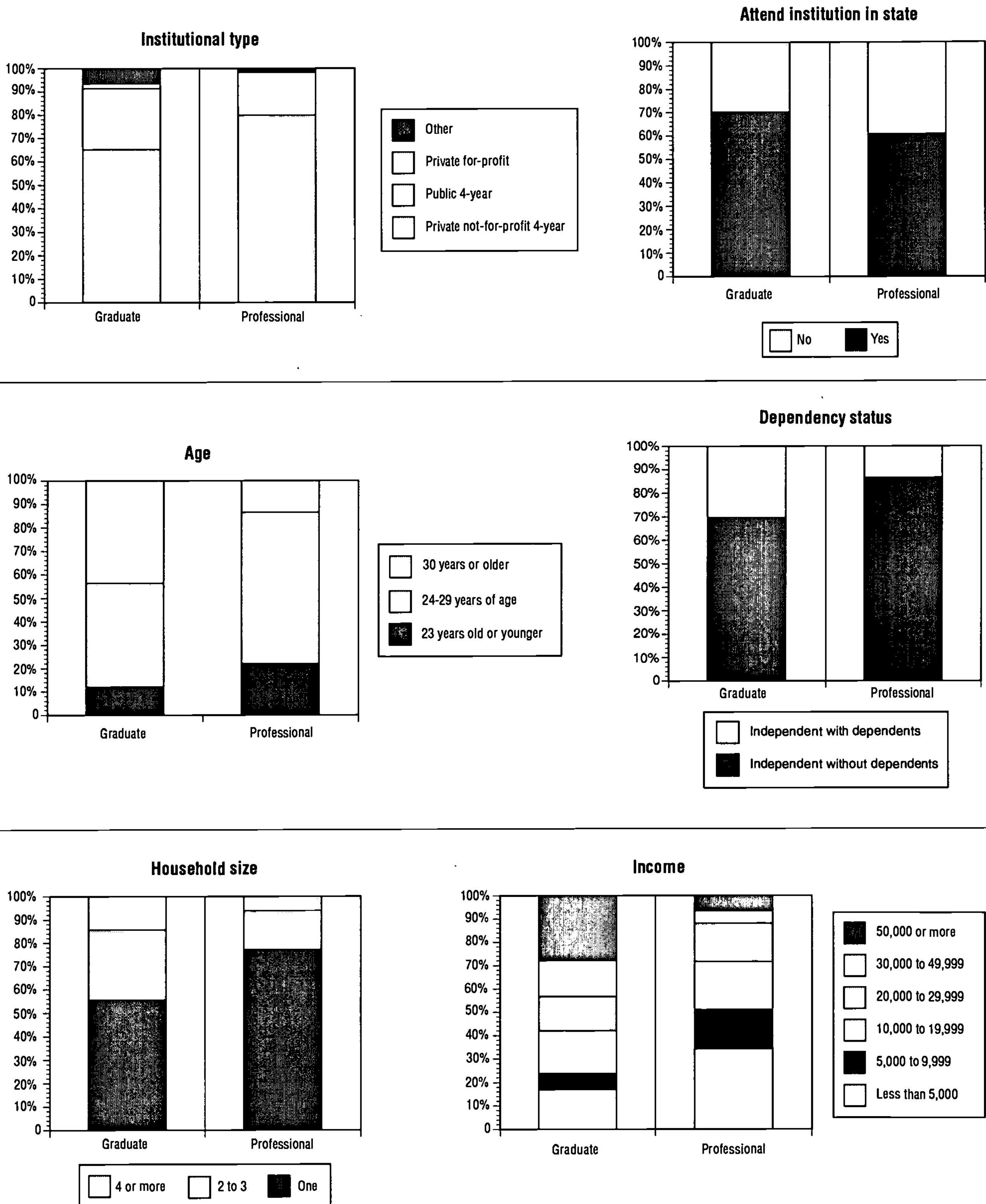
In other respects, the traits of professional students who borrowed private loans differed from the characteristics of graduate students who obtained these loans. The professional students tended to be younger, and they tended to have relatively lower income levels—for example, almost three-quarters had incomes less than $20,000, compared with 42 percent of graduate students. They tended to work part-time or not at all; only 9 percent worked full-time while enrolled. In comparison, 41 percent of graduate students who borrowed private loans worked full-time.

The analysis also identified the student attributes that made some graduate and professional students more likely to obtain private loans than their peers.[40] (see Figure 4.8)

- **Institutional characteristics.** Both professional and graduate students who attended private not-for-profit institutions were more likely to obtain private loans than students attending public and for-profit institutions. In addition, those who were attending out-of-state colleges were slightly more likely to obtain such loans.

[40] Some differences noted in this section are not statistically significant for professional students, likely due to low sample size.

Figure 4.7: Percentage distribution of professional and graduate student private loan borrowers, by selected characteristics, in 1999-2000



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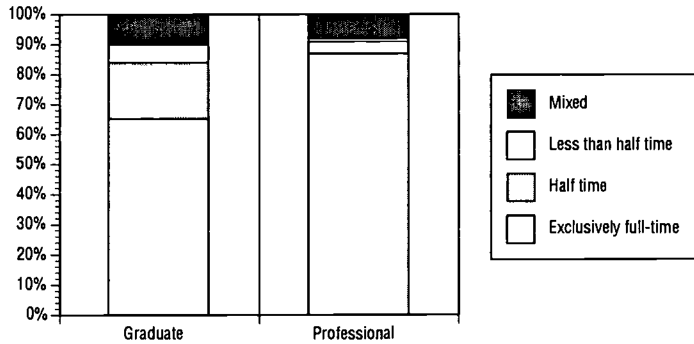

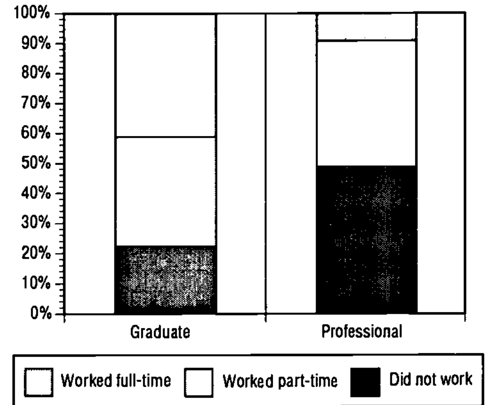

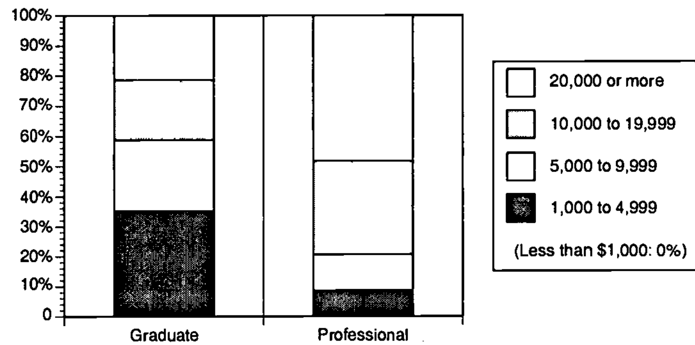

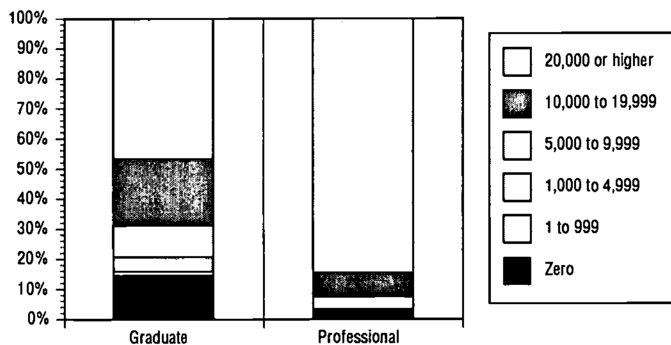

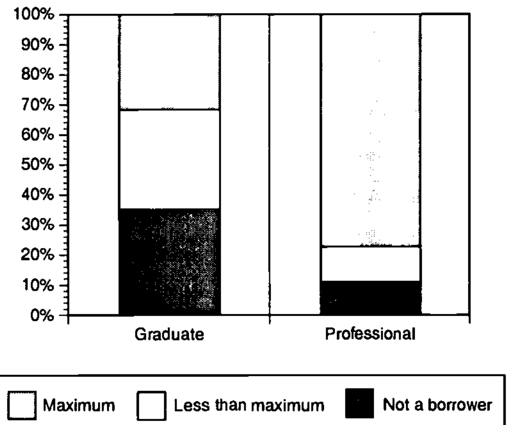

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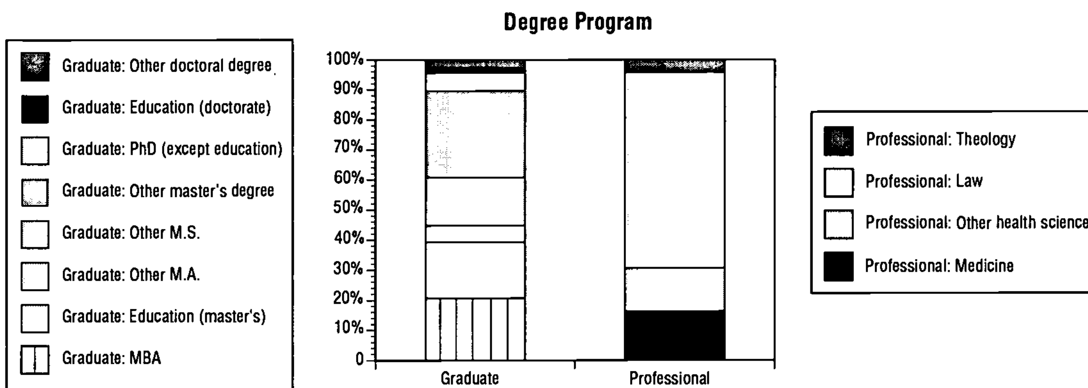


Source: NCES 1999-2000

- **Demographic/background characteristics.** Students who were younger and who had no dependents were more likely to obtain private loans. Students with relatively lower incomes also were more likely to borrow private loans. For both types of students, those with incomes less than $30,000 had a greater likelihood than those in the higher income categories.
- **Academic/enrollment characteristics.** Students who attended exclusively full-time (the majority of both groups) were more likely to obtain private loans than those who attended half-time or less than half-time. For graduate students, those in their first or second year were more likely than those in later years to receive such loans. For both groups of students, those who worked part-time while enrolled, or who did not work, were more likely to obtain loans than those who worked full-time.
- **Price and financial aid issues.** As with undergraduate students, graduate and professional students who faced higher prices and high levels of financial need were more likely to obtain private loans. For example, 27 percent of professional students and 19 percent of graduate students who attended institutions that charged tuition and fees of $20,000 or more received private loans, compared with 9 percent and 2 percent, respectively, of those enrolled at institutions with tuition prices between $1,000 and $4,999. Students at the federal student loan maximums also were more likely to receive private loans. Unlike undergraduates, however, all graduate and professional students are considered to be financially independent for financial aid purposes, and those with relatively low EFCs were more likely to obtain these loans than those with higher EFCs.

Because of the smaller sample of graduate and professional students in NPSAS, it is difficult to conduct deeper levels of analysis. Nevertheless, some interesting facts stand out.

- **As in the case of undergraduate students, many of the characteristics noted above are overlapping.** Concentrating the analysis on students enrolled at schools that charged tuition of $10,000 or more, who faced financial need of $10,000 or more, and who borrowed at the federal student loan maximums reveals that about one-third of professional students, and almost *two-thirds* of law students, obtained private loans. Similarly, 29 percent of graduate students with these characteristics obtained such loans.
- **Trade-offs may exist between obtaining private loans and using other sources of funding.** Students who received financial aid, particularly federal student loans, also were more likely to receive private loans. This is likely because these students are the ones with the highest financial need, and multiple sources of funding are required to cover that need. However, it does appear that students (especially graduate students) who did not receive employer aid were more likely to obtain private loans.
- **Trade-offs also may exist between obtaining private loans and working.** In addition, as mentioned above, professional and graduate students who worked part-time while enrolled, or who did not work, were more likely to obtain private loans than those who worked full-time. This suggests a potential trade-off between working more hours and obtaining private loans, although such a trade-off would be less relevant for professional students because so few of them work full-time.[41] Again, though, it is difficult to explore the extent of these trade-offs due to the small size of the dataset.

The ability to examine the average amounts of private loans also is limited by sample size, especially for professional students. In general, however, it appears that the characteristics of students who are most likely to obtain private loans also are the characteristics of the students who are more likely to borrow larger amounts.

Summary and implications

This chapter has examined the demographic and enrollment characteristics of students who borrow private loans, as well as the likelihood that certain groups of students obtained these loans. Several findings emerge from the analysis.

Across all levels, students who borrow private loans tend to have certain attributes—they are enrolled on a full-time basis, attend institutions with relatively high prices, and have relatively high levels of financial need. At least half of undergraduates and professional students who borrowed these loans also received the largest federal Stafford loans for which they were eligible. While, by definition, all graduate and professional private loan borrowers were financially independent, the majority of undergraduate private loan borrowers were dependent on their parents. In addition, undergraduate borrowers of private loans tended to be traditional students and pursued bachelor's degrees. The majority of undergraduate borrowers worked part-time and the majority of professional borrowers either worked part-time or did not work at all, while the majority of graduate borrowers worked either part-time or full-time.

[41] In fact, the differences were not statistically significant for professional students.

Figure 4.8: Percentage of professional and graduate students receiving private loans in 1999–2000, by selected characteristics

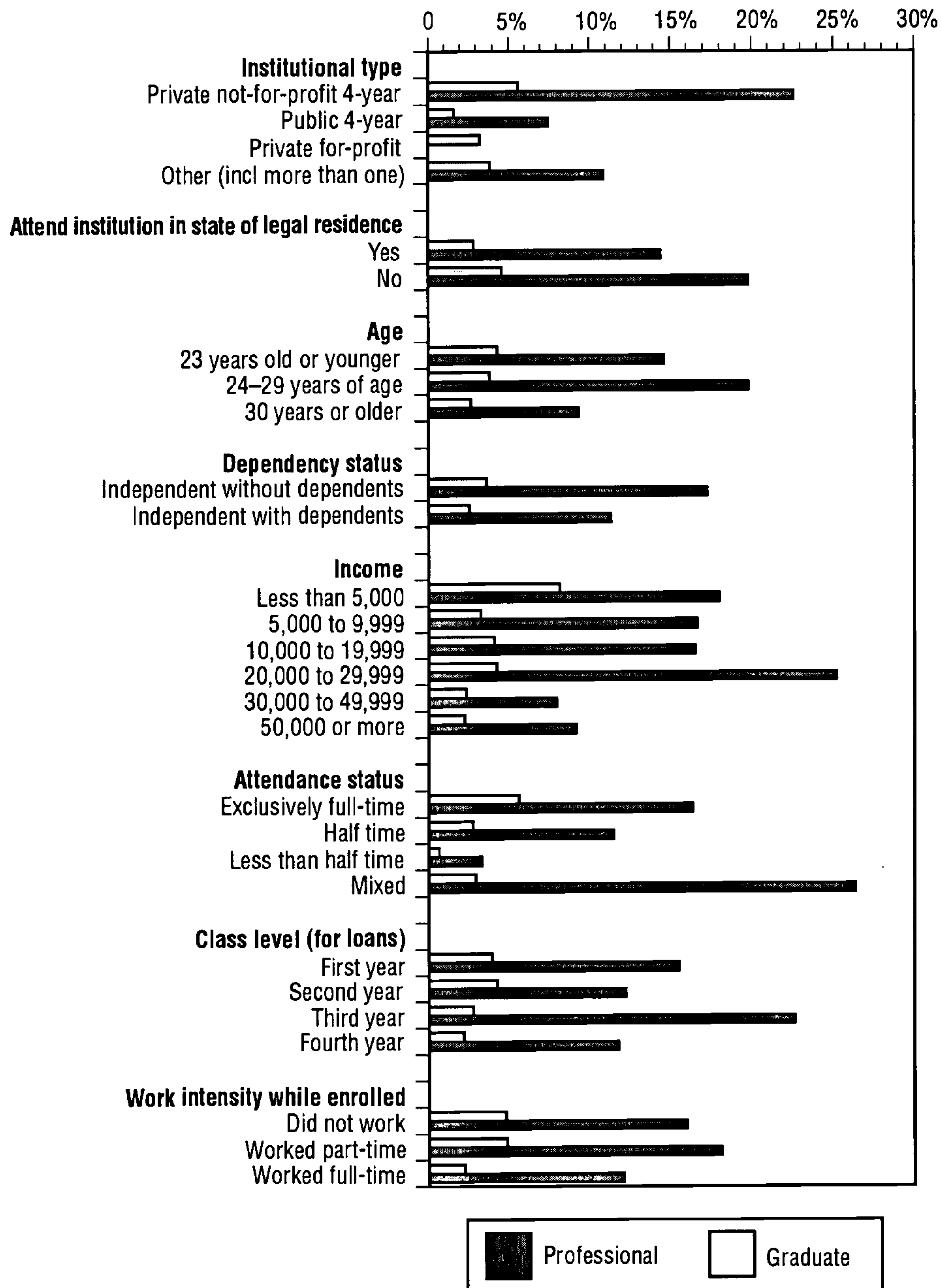
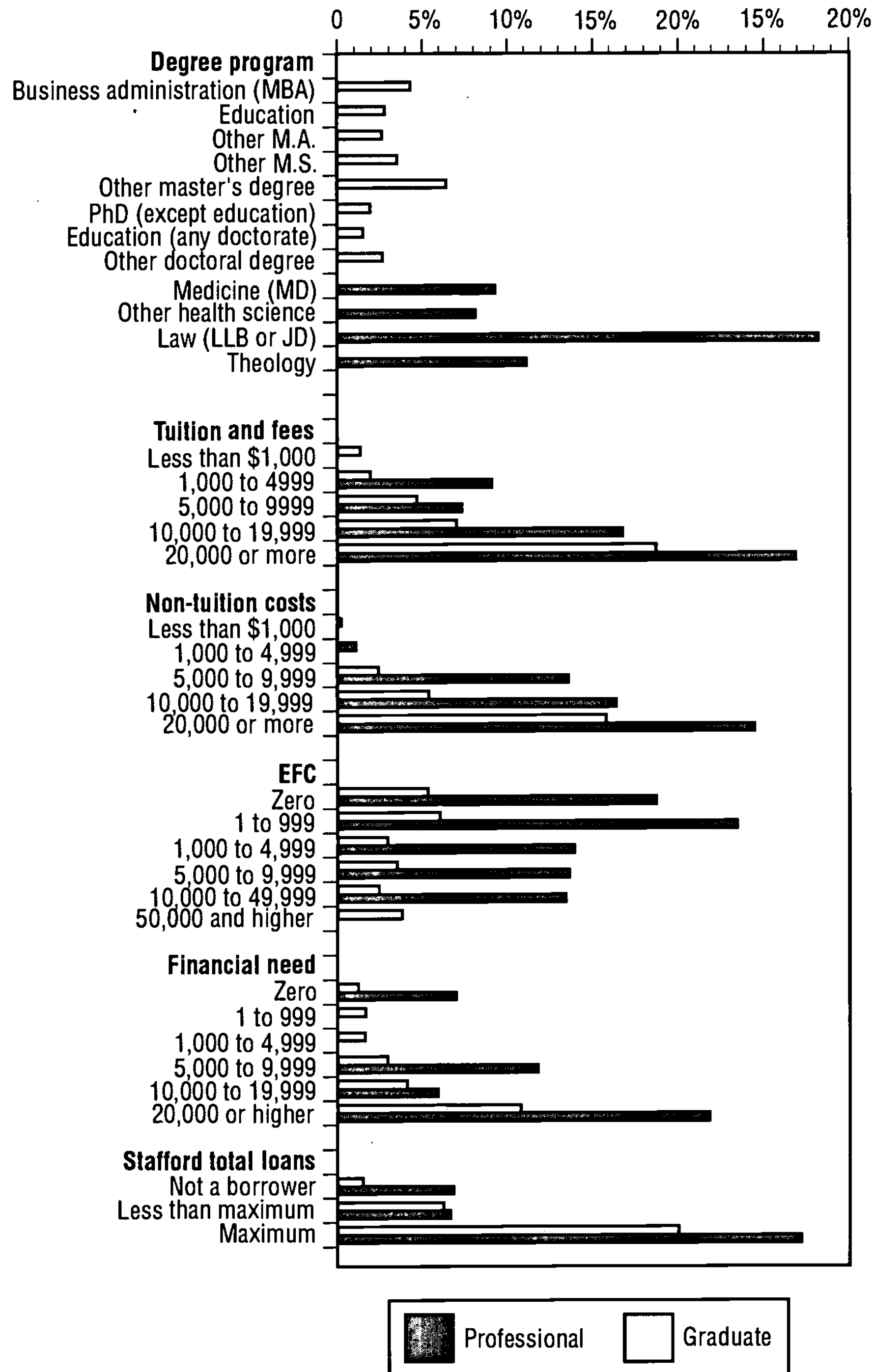


Figure 4.8 (continued)



Source: NCES 1999–2000

Similarly, students with certain characteristics tend to be more likely to borrow private loans than their peers—those attending private not-for-profit institutions, those enrolling full-time, those who are relatively young, those who face higher prices, those with greater financial need, and those who obtained the maximum Stafford loan amount for which they were eligible. In addition, for undergraduates, students who were single, financially dependent, living on campus, working part-time, and/or pursuing bachelor's degrees were more likely than other undergraduates to borrow private loans. Among professional and graduate students, those with relatively low incomes and EFCs were more likely to borrow these loans. Professional students—law students in particular—who faced high tuition prices, high financial need, and borrowed the maximum Stafford loan amount for which they were eligible, were particularly likely to borrow private loans.

Many of these characteristics are overlapping and reveal sub-groups of students who are particularly likely to obtain private loans. The groups most likely to borrow private loans include: 1) traditional undergraduates at relatively high priced, private four-year institutions; 2) undergraduates who face very high non-tuition costs, such as room, board, and other living expenses; and 3) professional students, particularly law school students, who face high tuition prices and high financial need. This is especially true for those students who had borrowed the maximum Stafford loan amount for which they were eligible. Even in these sub-groups, however, the majority of students did not necessarily borrow private loans. For example, less than a quarter of traditional undergraduates at relatively expensive, private four-year institutions who borrowed the maximum Stafford loan amount for which they were eligible actually obtained private loans. On the other hand, majorities of the other two groups mentioned did borrow a private loan in 1999-2000. In fact, almost two-thirds of law school students enrolled at schools that charged at least $10,000 in tuition, who faced financial need of $10,000 or more, and who had borrowed the maximum Stafford loan for which they were eligible borrowed private loans.

The characteristics of students who receive private loans—especially their attendance at relatively high priced institutions or programs—suggest that many private loan borrowers prefer to borrow the additional funds to enroll at the institution or program of their choice, rather than attending lower-priced schools because of inadequate financial resources. For students enrolled in programs with especially high non-tuition costs, for certain groups of professional students, and for many traditional undergraduates, the ability to obtain private loans may allow them to choose more expensive institutions. Evidence described in the following chapter reinforces this observation.

This issue is highly relevant to the discussion of federal student loan limits, as these groups of students may need private loan funds because they have taken out as much in federal student loans as they can, and still have not covered the total cost of attendance. As mentioned, 77 percent of professional students, 50 percent of undergraduates, and 32 percent of graduate students who borrowed private loans had also borrowed the maximum total Stafford loan amount for which they were eligible. (In comparison, 40 percent of professional students, 13 percent of undergraduates, and 4

INSTITUTIONAL PROFILE

The challenge of meeting need at private four-year not-for-profit institutions

At one private not-for-profit four-year institution in New England, financial aid officers are faced with the growing challenge of meeting need amidst rising tuition and fees for the school's 2,600 students. During the 2002-03 academic year, tuition and fees were $19,000 at the school, and the charge for room and board was an additional $9,200.

The sticker price of four-year private institutions has made more than a few parents leery about the cost of sending a child to such an expensive institution. Nevertheless, the cost is more affordable than it might first appear. Financial aid officers at this school routinely package several forms of aid, and private loans are emerging as a viable option for many students. While only seventy-eight private loans were processed through the college's financial aid office during the 2001-02 academic year, the seventy-eight loans accounted for $681,955—an average of nearly $8,750. Moreover, financial aid administrators at the college report that the number of private loan recipients has increased 100 to 200 percent over the past five years.

Financial aid officers at the school cite several reasons why students choose to receive private loans. For most private loan borrowers, aid from other sources, including grants, federal loans, work-study, and savings, did not cover their entire cost of attendance. In fact, among the private loan borrowers at the school, only one student did not obtain federal student loans. Additionally, financial aid administrators noted that other students at the college obtained private loans because of parents' unwillingness or inability to take out federal PLUS loans.

percent of graduate students who did not borrow private loans were at the Stafford total loan limits.) It is likely that if the federal loan limits were increased, many students who are currently receiving private loans would be likely to obtain more federal loans instead. At the same time, it is important to note that some private loan borrowers were *not* at the federal loan maximums—that is, they did not borrow the maximum amount for which they may have been eligible, or they did not borrow any Stafford loans at all (whether due to eligibility or by choice).

Clearly, there are some groups of students who are "high borrowers" in general, and are likely to borrow loans from all types of sources, from federal to private (see Clinedinst, Cunningham, and Merisotis 2003). It appears that these groups of students are those with high levels of financial need, calculated under the federal methodology. Although most private loan borrowers had unmet need under the first definition (subtracting grants and federal need-based aid), the majority had *no* remaining need when all aid is taken into account.[42] This suggests that many of these borrowers are using unsubsidized

[42] Students may view unsubsidized and PLUS loans as competing options with private loans and other funding choices. The fact that many private loan borrowers did not borrow up to the maximum amount in the unsubsidized loan program supports the idea that students may choose not to take these loans (and obtain private loans instead), although more evidence would be necessary to confirm this.

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Stafford loans and private loans, and their parents are using PLUS loans, to help meet the rest of their need. It is not possible to tell from these data whether private loan borrowers who have no remaining need are using the funds to cover their expected family contributions, or to pay for additional costs beyond the COA.

Finally, the above sections reinforce the possibility that some trade-offs exist between obtaining private loans and other forms of financing. In particular, it seems possible that some students work more hours rather than obtaining private loans. However, it is difficult to explore the existence of such trade offs within analyzing students' choices more directly.

Chapter 5

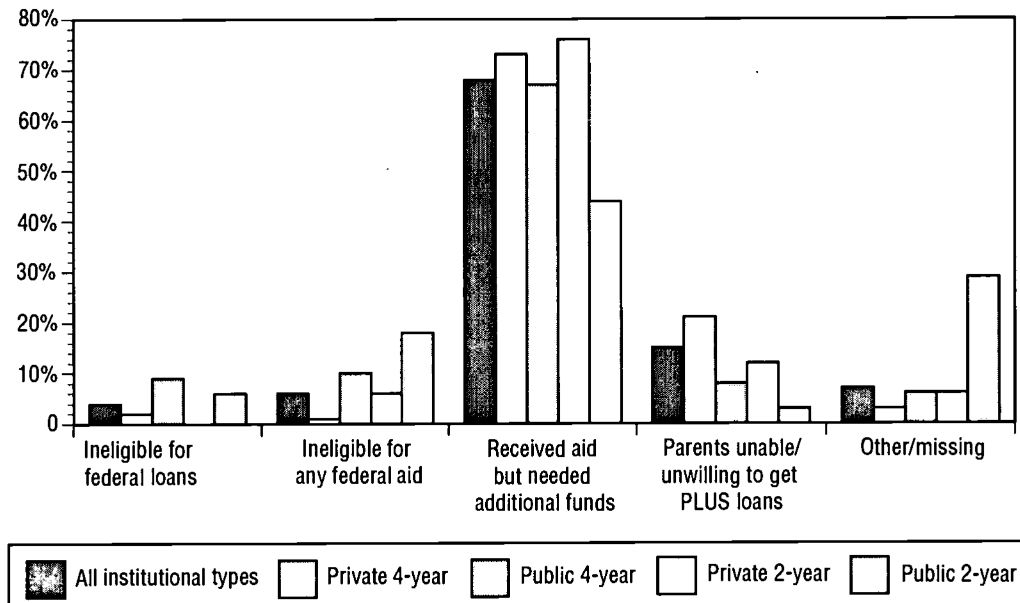
Why Do Students Obtain Private Loans?

In addition to understanding the types of students who are obtaining private loans, it is helpful to explore the reasons why these students are borrowing. Some of the reasons can be inferred from the information provided in many of the previous chapters. This chapter examines the various reasons for obtaining private loans cited most often by students, from the perspective of financial aid administrators (and lenders, to a lesser extent). This chapter draws upon the results of a survey of aid administrators, as well as the focus groups and phone interviews conducted for this report. In reading about these responses, it is helpful to remember the distinction between students with unmet need (whether due to high costs of attendance/loan limits, ineligibility for federal aid, or a choice not to use federal aid) and students who, even though their calculated need has been met, choose to borrow private loans—for example, to cover their expected family contributions or to finance expenses above the cost of attendance.

Survey results

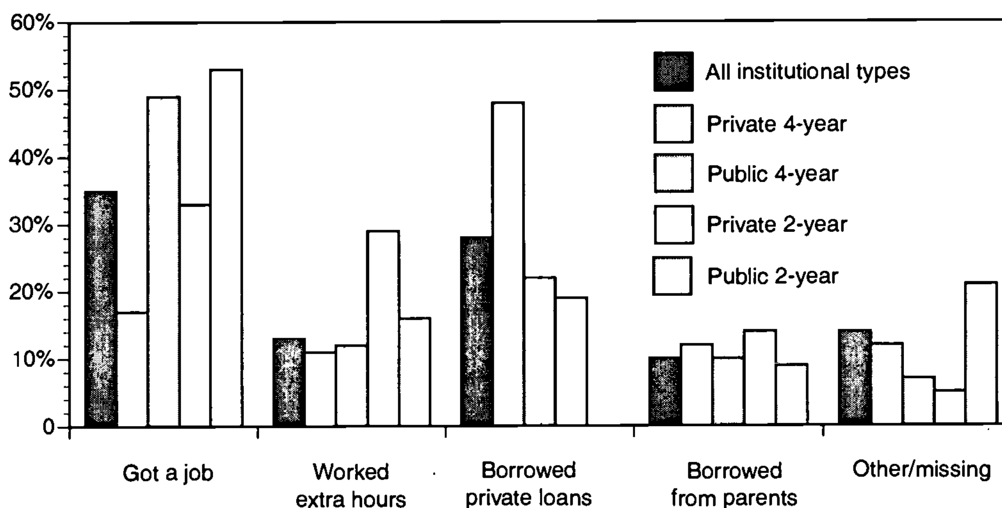
According to the 1999-2000 SUFAPPP survey of aid administrators (College Board and NASFAA 2002), the reason most often cited by undergraduates for wanting to receive private loans was that borrowers had received federal financial aid, but needed additional funds to pay their postsecondary education expenses. (see Figure 5.1) This was the most common reason cited by three-quarters of respondents at private four-year institutions, as well as two-thirds of those at public four-year institutions (it was also the most common reason cited by aid administrators at public and private two-year institutions). In addition, 21 percent of respondents from private four-year institutions noted that parents' inability or unwillingness to borrow through the PLUS program was the most common reason. Another reason for borrowing private loans was students' ineligibility for federal aid programs, especially at public institutions; 10 percent of aid administrators at public four-year institutions cited ineligibility for any federal aid as the most common reason, with an additional 9 percent citing ineligibility for federal loans in particular (the respective figures for public two-year institutions were 18 percent and 6 percent).

Figure 5.1: Reasons most often cited by undergraduate borrowers for wanting to receive private loans in 1999–2000



Notes: Based on the observations of financial aid administrators. Percentages are based on those institutions that had undergraduates who received private loans in 1999–2000. Public and private two-year institution categories include less-than-two-year institutions. Details may not add to 100 percent due to rounding.
Source: College Board and NASFAA 2002.

Figure 5.2: Actions undergraduates used most often to reduce unmet financial need in 1999–2000



Notes: Based on the observations of financial aid administrators. Figures are based on percentages of institutions that did not meet full demonstrated financial need (based on the federal methodology) in 1999–2000. Categories regarding employment do not include work study jobs. Public and private two-year institution categories include less-than-two-year institutions. Details may not add to 100 percent due to rounding.
Source: College Board and NASFAA 2002.

The SUFAPPP survey also asked aid administrators their opinions on the strategies undergraduates used most frequently to cover unmet need. (see Figure 5.2) The results suggest that most students with unmet need either worked or borrowed private loans to close the gap (these were the choices most often used by students; it is probable that many students did both, or used some other combination of strategies). Borrowing private loans was particularly important at private four-year institutions, with almost half of respondents calling private loans the choice used most often, compared to 22 percent at public four-year institutions.

Focus group and interview responses

The comments by focus group participants mirrored the findings of the SUFAPPP survey. Overall, aid administrators most often mentioned issues revolving around financial need and college costs as reasons their students were borrowing private loans. Although lenders have less frequent contact with students, their perceptions were similar, in that financial need was an important reason for borrowing. In terms of the type of "need," participants either felt that middle class students were most likely to obtain these loans for a variety of reasons, or that all income groups were equally likely to borrow private loans due to financial need.

Many participants felt that private loan borrowers had reached federal student loan limits needed to obtain private loans in order to bridge the gap in need. In particular, aid administrators felt that first year undergraduates facing loan limits needed to find some way of paying for education expenses (federal Stafford loan limits are lowest in the first year and increase in subsequent years). Graduate students, in particular, find that federal loan limits are not high enough to meet all their expenses. An aid administrator at a specialized university in the South noted: "Among our professional students, namely those in medical school programs, we are seeing a number of borrowers who want and need private loans despite taking out $38,500 in federal Stafford loans. They need the private loans to cover the gap between their total educational costs and the federal loan limits."

Many participants noted that high tuition or other educational expenses made a need gap virtually inevitable. Another financial aid administrator in the South commented: "At small private colleges like ours, which has a high cost of attendance, private loans are *not* being taken out for convenience. In fact, it's just the opposite—our students really do need to take out the additional loans in order to meet their educational costs." Other focus group participants stressed that some of their private loans borrowers were using the funds to meet the gap in need even though tuitions were not inordinately high. At a large Midwestern public university, for example, an aid administrator noted: "Most of the private loans at our school are being used for the regular cost of education. At the same time, a probable reason for the large jump in private loan volume on our campus is the sharp cut-backs in state funding that led to significant increases in tuition and fees." Several other public universities in states facing state-level budget crises echoed this sentiment.

Still other participants mentioned that specialized programs with high costs, or the extra expense of living on campus, were reasons students might need private loans. An

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Adults enrolled at for-profit institutions—the challenge for credit-worthiness

At a for-profit institution with a mission to educate working adults, approximately 80,000 students are enrolled at one of the institution's 140 locations in twenty-seven states, while another 60,000 students are enrolled in on-line courses. About 60 percent of the institution's academic programs are undergraduate, while the other 40 percent are graduate (both master's and doctoral programs); most of the degrees awarded are in business or business-related programs. The average student enrolled is thirty-four years old and gainfully employed with an annual income of $55,000.

The school currently has $750 million in FFELP volume, $10 million in Pell Grants, and $6 million in PLUS loans. Additionally, the institution had $15 million in private loan volume during the 2002 calendar year. The volume could have been much larger, considering only 20 percent of students who applied for private loans were approved.

The reality is that students at this school and others like it are in the prime of their debt-acquisitions—they already have car loans, home mortgages, and credit card debt. Their other consumer debt decreases their credit-worthiness for private loans. At 34 years old it is unrealistic for adult students to get a credit-worthy co-signer; they are not likely to ask their parents, and their spouses are in the same financial situation.

Unlike traditional undergraduate students who have access to PLUS loans up to the cost of attendance each year, independent students are limited by federal loan maximums. A financial aid administrator at this institution noted, "In some ways, it is ironic that many students at our school can borrow more in PLUS loans for their college-aged children than they can borrow for their own education expenses."

Credit eligibility becomes even more important when considering the issue of access. Many students at this institution are returning to college to finish what they may have started years ago; others are returning to school with the hope that further education will ease their financial duress by helping them obtain higher salaries. Nevertheless, a sample of 500 students at this school who had been turned down for private loans showed that about 50 percent of these students never enrolled while the other 50 percent went ahead and began taking courses. Federal loan limits allowed those who started courses to complete about five or six classes per year (eight to nine classes is considered a full year, with a tuition of approximately $7,000). However, many had to stop taking classes after they reached their federal loan limits. In particular, students in the first and second year, who are only eligible for $6,625 and $7,500, respectively, in federal Stafford loans, often are not able to cover their entire cost of attendance. On the other hand, students in their third or fourth year at the institution usually were able to take the full year of classes given their higher federal loan limits.

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aid administrator at a private college in New England reasoned: "We are dealing with the realities of today's society. Students want to live away from home; there are pressures and expectations that students live on campus. It's no secret that living costs for on-campus students are higher than for those who live at home. Many of these on-campus students pay for these higher costs by borrowing more." Some students also face substantial non-tuition costs in their programs. For example, students in the aviation program at a Midwestern public university are required to buy a $3,000 tool kit in their first year. In some cases, these expenses are beyond the cost of attendance calculated for financial aid purposes. Many graduate/professional programs have unique costs that cannot be included in the cost of attendance within the Title IV guidelines—bar examination loans, for example, have become popular at one large public university in the Midwest.

Another aspect of the issue is that some families have not saved enough to provide their expected family contribution, especially given higher college prices. Thus, students may need to come up with private sources of funding even though, based on the FAFSA, they have received enough financial aid to "meet full need." A financial aid administrator at a public university in California commented, "More and more parents are not providing their expected contribution, and most of these students aren't considered 'needy.'" Another aid administrator at a private university in New England agreed and specifically noted that the school was seeing more high-income families without savings, but that families in all types of economic circumstances are having problems meeting their EFCs.

In addition, many focus group participants noted that borrowing often resulted from parents or students trying to maintain a certain lifestyle. In particular, a substantial number of participants believe that students must find private sources of revenue because their parents will not contribute their expected family contribution. Some participants noted that parents also seem unwilling (or unable) to take out PLUS loans. A financial aid administrator at a private college in the Southwest noted,"When parents hear that PLUS loan repayments come due in 60 days, they find it much more appealing to co-sign private loans because those loans don't go into repayment until the student leaves school or graduates." Likewise, an aid administrator at a large public university in the Midwest shared, "Of all the families who are offered PLUS loans, only about a third of them actually take them." Other participants, however, noted that parents' unwillingness to borrow PLUS loans really has not changed over the past decade or so. And a private lender felt that PLUS loans were being denied to many families because of poor credit.

In some cases, the students are trying to maintain a certain lifestyle. Often, private loan recipients can borrow up to the calculated cost of attendance. Some may not actually need all of that funding for educational expenses, but they borrow the entire amount for which they are eligible and use a portion to cover non-education-related expenses such as travel or cars. A financial aid administrator at a private graduate school in California commented: "With older students, many of them come to school with a particular standard of living. Younger students might be more capable of going

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without certain conveniences; older students don't want to give these things up." At the same time, many graduate and professional students who take out private loans do so to make up for lost income while in school. Older students also may need funds to relocate their families or to pay other family-related expenses. One aid administrator at a private school in New England commented: "Students are borrowing private loans to accommodate the high cost of living in the area. When students petition us for increases in their cost of attendance budgets, it's primarily because of the city's high cost of living." Finally, one lender noted that, given the increasing availability of private loans without co-signers, some dependent students borrow to supplement their lifestyles without the knowledge of their parents.

Other reasons for obtaining private loans were raised by several participants. Some students were not eligible for federal aid due to marginal academic progress, citizenship status, or other reasons. For example, an aid administrator at a public four-year university in the Midwest stated, "A lot of the students who aren't making satisfactory academic progress turn to private loans because most lenders don't pay attention to academic progress, and private loans give them the money they need to stay in school." At another Midwestern public university, some undergraduates borrow private loans because they filed for aid after the school's Federal Perkins Loan allocation had already run out. An aid administrator at a public university in California noted another problem that leads students to borrow private loans, "some of our undergraduates are taking too long to finish their degrees and have maxed out on the Stafford amounts for which they're eligible." An aid administrator at a public university in the Southwest also acknowledged, "A lot of our private loan borrowers happen to be older, independent, international students because many of them easily can get an American citizen to co-sign for their loans."

Finally, many aid administrators noted a perception that students are borrowing because private loans are so easy to obtain. As one aid administrator at a private school in California pointed out, "the money is out there and the students are all too aware of that." At a number of campuses, the loans are marketed heavily and are visible through preferred lender lists; students often tell their friends about loans with favorable terms. An aid administrator at a large public university in the Midwest commented: "There appears to be a fairly good balance between where students are getting their information about private loans—the lenders, our office, the professional schools, and friends all seem to be good sources. It doesn't take long for word to get out about easy and difficult lenders." In addition, some students feel that private loans are easier to obtain than federal loans (although aid administrators recommend federal loans first). At one Eastern proprietary school a financial aid administrator noted, "Many students just assume it's their right to receive government, Title IV money and don't feel like they should have to jump through all the hoops and probing questions of federal forms."

Although the focus group results are not based on a nationally representative survey and one cannot draw overarching conclusions from them, the comments of participants do suggest that the reasons for borrowing private loans may differ according to

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Financing professional degrees

At a graduate school of business on the West Coast students are willing to pay for an education at one of the top-ranked business schools in the country. During the 2001-02 academic year, single students living on campus paid roughly $47,800, while students living off-campus had a cost of about $51,400.

Students are aware that they are expected to contribute a portion of their savings and assets to the cost of their education before they decide to attend this particular institution. At the same time, the financial aid office encourages students to reduce their consumer debt before enrolling and to consider their debt level following graduation before making final decisions about the amounts they want to borrow in student loans. Likewise, entering students are discouraged from relying on part-time work to finance their educations because of the rigorous MBA curriculum, and the school does not offer work-study.

Although the financial aid office attempts to make fair distributions of financial aid, particularly fellowship aid, more than two-thirds of enrolled students borrow to finance their educations, including private loans. During the 2001-02 academic year, 361 students, almost 50 percent of total students enrolled, obtained private loans that totaled $6.64 million, an average of $18,400 per loan. Among these students, 73 percent were U.S. citizens and permanent residents, while the other 27 percent represented international students. In addition, 73 percent of private loan borrowers also received federal student loans.

This particular graduate school of business has integrated private loans into its aid program and uses a preferred lender not only because of student need, but also because of the rewards and services the lender is able to provide. For instance, the school's preferred lender has no origination fee (but higher interest rates) and no risk-share for the school. Lenders do provide technology for students to access their accounts.

the type of institution and possibly the region in which schools are located. For example, participants from private colleges and universities tended to mention "high tuition" and federal loan limits as a reason for students wanting to receive private loans. In comparison, participants from public institutions tended to emphasize that private loans were used to meet regular expenses, or in some cases to meet additional expenses related to specialized programs, study abroad, or other activities. However, both groups of participants were similar in that those from four-year institutions emphasized the importance of unmet need, federal loan limits, and parent responsibility issues as reasons for private loan borrowing.

Participants from two-year institutions, on the other hand, tended to have very few private loan borrowers, largely related to the fact that these schools generally are not as high priced as four-year institutions. The reasons cited for those students who did borrow tended to be related to very specific issues or programs, especially programs with

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high non-tuition costs. At a community college in the Southwest, for example, private loans are used by students who already have an associate's degree and want to get into the nursing program (but have used up their eligibility for federal aid programs), or who are in difficult economic circumstances and need additional funds.

It also appeared that participants from the various regions tended to focus on slightly different aspects of students' reasons for borrowing private loans. In New England (where tuition tends to be relatively high, and where most participants in the focus group were from private four-year institutions), participants tended to focus on high levels of tuition, the inadequacy of federal student loan limits, and parents' and students' desire to maintain certain lifestyles. In the Midwest, where participants predominantly came for public four-year colleges and universities, discussion stressed issues of parental responsibility and emphasized that "ordinary" costs of attendance were being covered by private loans (while noting that those costs had increased in recent years due to state budget cuts). While participants from the Southwest gave a wide variety of reasons, they mentioned students who are not able to obtain other types of loans, such as federal student loans, more frequently than participants in other regions. Their location near the border may account for greater proportions of international students. One of the private lenders noted that marketing efforts take into account these regional differences in students needs.

Summary and implications

This chapter has described some of the reasons for borrowing most often cited by private loan recipients. Although the national data show relatively low percentages of students with these loans, there appears to be significant concern among financial aid administrators about the possible difficulties faced by some students who obtained private loans. The following reasons for borrowing private loans were noted by financial aid administrators:

- **Financial need issues:** Many students are borrowing private loans due to some combination of high tuition and fees or other educational costs, high levels of unmet need, and federal student loan maximums that are too low to help meet the total cost of attendance.
- **Lifestyle issues:** In some cases, parents seem to be unwilling to change their lifestyles, pay the calculated EFC, or obtain PLUS loans, which may force students to look into private sources of financing. In other cases, students use the additional revenue to make lifestyle choices, or to pay for family-related expenses or forgone income.
- **Other issues:** Some students were not eligible for federal aid due to marginal academic progress, missed financial aid application deadlines, citizenship status, or other reasons.

The reasons cited by financial aid administrators appeared to differ by institutional type and by region, although further research is necessary to confirm these differences.

The findings in this chapter tend to reinforce results in the previous chapter about the

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students who are most likely to borrow private loans. Aid administrators stressed the importance of high price, high need, and the low proportion of costs met by federal loan limits in addition to more specific financial issues such as high non-tuition costs or the choice of living on campus. In addition, aid administrators noted that some graduate and professional students were particularly likely to obtain private loans.

On the other hand, some of the reasons noted by aid administrators could not be confirmed with national data. In particular, it is difficult to examine parents' lifestyle decisions, or unwillingness to pay the EFC and/or obtain PLUS loans, using existing national data. Additionally, the data analysis did not find that international students were more likely to obtain private loans and did not focus on borrowing by non-traditional students. Finally, aid administrators stressed the problems of first year undergraduates who were at the federal loan maximums, while the data analysis did not find first year students to be particularly likely to borrow private loans.[43] Of course, these types of reasons are highly dependent on the circumstances of particular students and institutions, and it is clear that the reasons specific students obtain these loans may differ from the aggregated description.

[43] Although not reported in the previous chapter, a more detailed analysis by class level was conducted. First year undergraduates at four-year institutions are more likely to be at the federal loan maximums. However, of those students at the maximum (at four-year institutions or overall), first-year undergraduates are not more likely to obtain private loans than other undergraduates.

Chapter 6

What do the Findings Suggest?

This report has discussed how private loans are playing an increasingly important role in financing postsecondary education. It has described the various private loan products available, the campus practices relating to private loans, the types of students obtaining these loans, and their reasons for doing so. It presents a variety of perspectives on the growing use of private loans.

Status of the Private Loan Market

Student demand for additional funds to finance postsecondary education has increased significantly in recent years as increases in tuition charges have outpaced financial aid. To meet the resulting gap between need and aid, increasing numbers of students are turning to private loans. One estimate suggests that private loan volume grew 355 percent between 1995-96 and 2001-02, increasing from $1.1 billion to $5 billion during this period. Federal Stafford loan volume grew only 50 percent during this same period.

In reaction to this growth in consumer demand, the number and diversity of private loan products have increased. The number of private loan products grew from seventy-nine in March 1997 to 272 in March 2003, an increase of 244 percent. Of the 272 products, sixty-seven were available to undergraduates, 113 were available to graduate and professional students, and ninety-two were available to both groups of students. In addition, many of these private loan products are targeted toward specific groups of students, including specialized products for business, law, medical, and international students. The diversity and growth of loans reflects increased competition between lenders within the private loan market, as well as competition with federal student loans and other forms of financing.

Many of the same lenders who provide federal student loans also offer private loan products. Although private loans share some similarities with federal student loans, private loan products differ in terms of their flexibility, risk level, terms and conditions, and rewards and services. For example, private loans may provide borrowers with greater flexibility with regard to loan origination fees, interest rates, and repay-

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ment terms and conditions, such as the ability to defer repayment for up to nine months after graduation. In some cases, private loans have terms and conditions that have allowed them to compete favorably with federal student loans. Given the predominance of loan product listings on the internet, students and parents can easily compare the various options and shop around to find the loan product that best meets their needs.

Role of Financial Aid Offices in Private Loan Borrowing

Financial aid offices are facing a number of challenges as they construct financial aid packages for their students, including the need to balance concerns about debt burden with a desire to facilitate student choice. Financial aid administrators generally prefer to package grants, work-study funds, and federal student loans before turning to other funding sources. In many cases, however, grants and federal student loans are not enough to meet students' full demonstrated need, and aid administrators are choosing to discuss private loans with students. Private loans may be discussed in addition to or instead of other options such as PLUS loans.

Colleges and universities' responses to the use of private loans on their campuses have been varied, but the increased demand and wider public acceptance for private loans also have led financial aid offices to modify or adopt new practices and procedures. Some colleges have put procedures in place to discourage the use of private loans. Other campuses have decided to use preferred lender lists in order to integrate private loans into the financial aid equation. Preferred lender lists help schools to secure better private loan options for their students. Private lenders, eager to be listed, often are willing to offer better private loan products to students and also hope for the chance to win the school's federal loan volume. In addition, students may rely on these lists, as opposed to sifting through the vast amount of information available on the internet about private loan products. Finally, the lists help standardize private loan processing and reduce the administrative burden on aid administrators.

While many financial aid offices have found ways to streamline the private loan process for students, the majority of these same offices struggle with how to, or even whether to, provide counseling about private loans. In addition to counseling that occurs for federal student loans, some colleges have explored debt management counseling for private loan borrowers. However, it is more difficult to provide such counseling than for federal loans because financial aid offices often do not have a clear sense of either the amount or the type of private loans many students hold.

Use of Private Loans by Students and Parents

It is clear that the majority of private loan borrowing is focused on specific groups of students. Overall, students who borrow private loans tend to have certain characteristics, including enrolling on a full-time basis, attending institutions with relatively high prices, and demonstrating relatively high levels of financial need. Substantial proportions also borrowed the maximum Stafford loan amount for which they were eligible.

In addition, the majority of undergraduate students who borrowed private loans were financially dependent on their parents, and were "traditional" students pursuing bachelor's degrees.

Similarly, students with specific attributes were more likely to borrow private loans than their peers. Some students were particularly likely to borrow private loans, including: 1) traditional undergraduates at relatively expensive, private four-year institutions; 2) undergraduates who faced very high non-tuition costs, such as room, board, and other living expenses; and 3) professional students (law school students in particular) who faced high tuition prices and high financial need. This was especially true for those students who borrowed the maximum Stafford loan amount for which they were eligible.

Students who decide to borrow private loans do so for various reasons. The reasons most commonly cited by financial aid administrators were related to financial need, including high prices, substantial amounts of unmet need, and inadequate federal student loan limits. Other reasons include ineligibility for federal financial aid due to marginal academic progress, citizenship status, or other reasons; parents' or students' inability or unwillingness to cover the EFC through savings or current income; and parents' unwillingness or inability to borrow PLUS loans. Although the evidence is not conclusive, it appears that the reasons for borrowing may differ depending on the type of institution and its regional location.

It is important to consider private loans within the context of a variety of options for students (and parents), including PLUS loans, working more hours, enrolling part-time, using credit cards, and so on. Given this context, some trade-offs appear to exist between obtaining private loans and other means of financing. In particular, it seems possible that some students elect to work more hours rather than obtaining private loans, and others choose to borrow private loans rather than working, or working more hours.

The role of parents in student borrowing of private loans is complex and multi-layered. In a substantial proportion of cases (primarily for dependent students), parents are co-signers on private loans, and may even be helping students repay these loans. This may enable students to attend an institution or program that is more expensive than their parents could ordinarily afford. On the other hand, there is some evidence that parents are shifting some of the burden of paying for college onto the students—private loans may be used to cover part of the EFC, especially when parents are unwilling (or unable) to obtain PLUS loans.

Summary of Cross-Cutting Themes

Currently, private loans constitute a small but growing portion of students' funding to pay higher education expenses. Overall, only 4 percent of undergraduate students, 3 percent of graduate students, and 16 percent of professional students borrowed private loans during 1999-2000. These figures may have increased since then, but it is likely that private loans have remained just one part of the overall higher education financing equation. Nonetheless, student consumers, institutions, lenders, and

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policymakers must pay attention to future trends so that responsible decisions can be made with regard to the student loan market.

Private loans clearly have become an important part of financing postsecondary education for specific segments of the student population, and lenders often tailor private loan products to address the needs of these sub-groups of students. But, the students who are most likely to borrow private loans do not necessarily borrow these loans. For example, among traditional undergraduates at relatively expensive, private four-year institutions who received the maximum Stafford loan amount for which they were eligible—one of the groups of undergraduates most likely to obtain private loans—less than a quarter actually borrowed. And although some graduate and professional students may add private loans to existing high amounts of debt, others use private loans to help meet targeted obligations. For these students, private loans may be providing the opportunity to choose an institution and/or program that best meets their needs.

In fact, students obtain private loans for a variety of reasons, and these reasons reflect the choices students make with regard to their enrollment and use of other available aid sources. Thus, private loans appear to be facilitating institutional choice for students who have reached the limits of other types of financing, including federal student loans. That is, private loans help students go to schools that they *want* to attend, rather than schools they might *have* to attend because of inadequate financial resources. In particular, the ability to obtain private loans allows many students with *high financial need* to choose more expensive institutions or programs. High financial need often reflects the total cost of attendance at a particular institution rather than low ability to pay. In fact, this mechanism for institutional choice is an explicit part of the federal need analysis framework (see Institute for Higher Education Policy 2002). For students enrolled in programs with especially high non-tuition costs, or for professional students, the ability to obtain private loans may be necessary for them to come up with the cash necessary to attend higher-priced schools. The groups of undergraduates who are most likely to receive private loans also may require the additional funds to enroll at the institution or program of their choice. Although this may contribute to greater amounts of debt, it is worth noting that the research literature on student persistence suggests that traditional undergraduates at four-year institutions do not tend to be high risk borrowers (i.e., they are not prone to default on their loans);[44] they are relatively likely to complete their degrees and may therefore be better able to repay the private loans.

The issue of college choice is closely tied to students' strategies for dealing with unmet need, especially for those students who already have borrowed as much in federal student loans as they could. In fact, private loan and federal student loan borrowing are closely interconnected. A high proportion of private loan borrowers had also borrowed federal student loans, and in many cases had borrowed up to the federal loan limits. As mentioned, 77 percent of professional students, 50 percent of under-

[44] There are many risk factors for failing to persist, including non-traditional status, starting at a community college, and working full-time; see, for example, Choy 2002.

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graduates, and 32 percent of graduate students who borrowed private loans also had borrowed the maximum total Stafford loan amount for which they were eligible. In comparison, among those who did not borrow private loans, 40 percent of professional students, 13 percent of undergraduates, and 4 percent of graduate students were at the Stafford total loan limits. It is likely that if the federal loan limits were increased, some of the students who are currently receiving private loans would obtain more federal loans instead. At the same time, it is important to note that some private loan borrowers were not at the federal loan maximums—that is, they did not borrow the maximum amount for which they may have been eligible, or they did not borrow any Stafford loans at all (whether due to eligibility or by choice).

The practices of lenders and financial aid offices also reflect the relationship between private loans and federal student loans. For example, along with extra services and rewards, lenders base interest rates and repayment options for private loans on those of federal loans. Likewise, lenders create private loan products that compensate for federal loan limits. In fact, some private loan products are so attractive that they have become competitive with federal student loans. Institutional practices also demonstrate the connection between private and federal student loans. Many financial aid offices have created polices for discussing or packaging private loan options because federal aid sources often do not cover the student's cost of attendance and students are borrowing both types of loans.

Finally, although not true for the majority of students, there are a few specific groups of students for which private loans may be contributing to unmanageable debt burdens. In particular, a high proportion of law school students at relatively expensive universities require private loans to help meet their total cost of attendance when they have already reached the maximum amount in federal student loans for which they are eligible.[45] Given the high costs of their specific programs and tuition levels that continue to increase, these students often must supplement federal loans despite the relatively high limits of $18,500 annually and $138,500 cumulatively (including undergraduate loans) in the Stafford loan program.[46] They may take on the additional repayment responsibilities with the expectation that high salaries in the future will cover the extra burden. However, such salaries are not guaranteed, and some of these students may face financial difficulties.

Unanswered Questions for Further Research

Various data along with our research and analyses show that private loan use is an important issue. Nevertheless, this report is unable to resolve all of the questions surrounding these types of loans. Further research is necessary to help policymakers, financial aid administrators, guarantors, lenders, students and parents make informed decisions concerning private loan use in postsecondary financing. For example:

[45] A recent report examines law school debt and concludes that the majority of law school students do not consider a job in public interest or government service because of high debt burdens. See Equal Justice Works, Partnership for Public Service, and National Association for Law Placement 2002.

[46] Note that some professional students in other high-cost programs, such as medical and dental programs, are eligible for higher Stafford loan amounts (up to $38,500 annually), which may help to explain why law students are more likely to obtain private loans than other professional students.

- **Private loan volume**. Although the sources used in this report provide rough estimates of total private loan volume and the distribution by student level, it is not possible to account for private loans that are not certified by financial aid offices. A more comprehensive methodology, including data from lenders, would better serve financial aid administrators, private lenders, and policymakers. Such information could help to target services such as comprehensive debt management counseling to high-level borrowers and to make other decisions regarding options for financing postsecondary education.

- **Default rates**. Likewise, there has been no national research or data on private loan default rates. Unlike federal student loans, most institutions do not receive reports on their students' private loan default rates, and financial aid offices have little, if any, sense of what happens with these loans after they are certified. This situation is further complicated by the fact that aid administrators are not usually aware of loans that are borrowed but not certified by the aid office. Further research on private loan default rates will become increasingly important as the secondary effects of the economic slowdown begin to surface.

- **Matching the characteristics of borrowers with the reasons for borrowing.** Are private loans moving in the direction of supporting a middle-class lifestyle rather than meeting real financial need? Are private loans being obtained to pay for non-education expenses such as credit card or vehicle payments, outstanding medical bills, or even entertainment costs? These types of concerns are apparent among financial aid administrators and other observers. Although this report drew on the perceptions of financial aid administrators about the reasons for borrowing and looked at the characteristics of students who obtained private loans, it was not possible to match the reasons students borrow private loans with particular student characteristics.[47] Further research on why specific groups of students decide to obtain private loans might assist institutions and lenders with targeting resources and services to these particular student populations. In addition, multivariate analyses could determine the various relationships among characteristics that are associated with private loan borrowing, to resolve which characteristics are most closely related to such borrowing.

- **Students borrowing to meet their EFC or expenses beyond the COA**. The perception of a gap between resources and the cost of attendance dominated discussions with financial aid administrators about the reasons for obtaining private loans. Given that most private loans are available only up to the costs of attendance, it is reasonable to assume that unmet need is a prime motivation for many, if not most, students who obtain these loans. Yet anecdotal evidence suggests that some private loan borrowers are borrowing to cover their EFC or to cover costs beyond the COA. Complicating this issue is the fact that "unmet need" is an artificial construct; it is useful for analytical purposes, but less helpful when applied to student realities.

[47] One report (Rube 2003) attempts to infer student reasons for borrowing private loans by looking at borrowing behavior and unmet need by income level, for the following student groups: high-income students without unmet need; low and moderate-income students without unmet need; and low-income students with need.

- **The fungibility of resources**. Parents and students have income, savings, investments, and various forms of credit and debt. It is conceivable that some of these resources are used to pay for education, but because these resources are fungible, it is difficult to determine which funds are used for which purposes. This issue becomes more complicated because parents may pay off student loans (including private loans), and students may help repay PLUS loans. Future research on the trade-offs among fund sources would enhance the larger discussion of private loan borrowing.

- **The general costs of borrowing**. In the current environment of low interest rates, students and families may be more willing to borrow because the cost of money is so low. Low interest rates also may provide an incentive to lenders to offer more loan products. This may be true not only for education loans, but also for car loans and other consumer loans. If interest rates increase again and the gap between the terms of federal student loans and private loans widens, it is possible that students' decisions about financing postsecondary education could change dramatically.

Implications and Recommendations

The implications of private loan borrowing occur on multiple levels, including federal, institution, general public, and guarantor and lender levels. What affects one level does not necessarily affect the other levels; however, the decisions made at all of these levels most certainly will affect future postsecondary education borrowers.

- **Federal government: student loan limits.** The debate over whether to raise federal student limits looms large in the current reauthorization of the Higher Education Act. Central to this issue is the question of whether students are currently reaching the federal student loan limits before their full financial need has been met. Overall, 15 percent of all undergraduate students (and 53 percent of Stafford loan borrowers) had obtained the maximum total Stafford loan amount for which they were eligible during the 1999-2000 academic year. Students who reach federal loan limits may be turning to other financing options—such as private loans, PLUS loans, employment, or credit cards—to meet their remaining need. They may also choose to change their attendance patterns or choose to attend less expensive institutions. For all of these options, if federal loan limits were raised, students might choose to substitute additional federal student loans for the other financing options.

  Examining one of these other non-governmental financing options, private loans, does provide one perspective on this issue. The analysis in this report revealed that although most private loan borrowing occurs for specific groups of students, private loan borrowers also tended to borrow the maximum Stafford loan amount for which they were eligible. From these results, it is clear that raising the limits would affect private loan borrowing in the short term, as some students who borrow private loans to meet need would take advantage of increased federal loan limits. It is less clear whether increased limits would have an effect on private loan borrowing in the long term. In addition, private loans are only one piece of the higher education financing puzzle; this analysis presents a partial picture. Many students who use financing options other than private loans to meet their need

may also be at the federal Stafford loan limits and might benefit from increases in those limits.[48] At the same time, the question remains whether increasing the loan limits for *all* students would be the best use of scarce federal resources. Targeting increased federal loan limits to the students or institutions who require more funding but cannot easily obtain it might be another option for policymakers to consider. Another option would be to increase loan limits for all students, but give institutions the flexibility to restrict loan availability in certain cases.

- **Federal government: interest rates.** As noted earlier in the report, interest rates on private loans traditionally have been higher than federal student loan interest rates. Nevertheless, in recent years the large gap in interest rates between the two types of loans has diminished, and many private loan products offer terms and conditions that are competitive with federal student loans. It remains to be seen whether the decision to remove variable rates on federal student loans in July 2006 and replace them with a fixed rate of 6.8 percent will have any effect on private loan borrowing. Although the federal student loan fixed interest rate will provide student borrowers with more predictable monthly payments, it is less clear whether the fixed interest rate will add to or detract from private loan borrowing.

- **Postsecondary institutions.** One of the greatest challenges for institutions is finding ways to reconcile their responsibility to counsel students on education debt management while at the same time ensuring that classroom seats and dormitory beds are occupied. Colleges and universities have several options for addressing private loan concerns on their campus. Although some financial aid administrators do not believe loan counseling has any effect on student borrowing decisions, others noted that efforts to target high risk borrowers and provide them with additional financial counseling have found measured success with reducing these students' loan default rates. Financial aid offices might consider providing various forms of private loan counseling based on a student's borrowing level. Students considered to be low-level borrowers might be provided written materials, whereas students with medium levels of debt may be asked to meet individually with a financial aid officer, and students who are high borrowers might be required to attend several debt management sessions throughout the academic year. Colleges and universities with a preferred lender list may consider asking their lenders to assist with the counseling process or could stipulate that lenders not approve students for private loans without first conferring with the school's financial aid office. Despite the challenges postsecondary institutions face with regard to student use of private loans, implementing procedures on campus can make private loans manageable for both the school and student borrowers.

- **Consumers: students and parents.** The general public, and postsecondary consumers in particular, also have a responsibility when it comes to understanding financial aid and private loans. Despite the publications explaining financial aid that the federal government, postsecondary institutions, and numerous private organizations have made available, many students entering college and their parents continue to be uninformed about the financial aid process. Students applying for financial aid

[48] For some students, private loans may not be an option if they do not meet lenders' criteria.

and their parents should know that they will be responsible for paying at least a portion of their college costs, and they should familiarize themselves with the types of financial aid available along with the terms and conditions associated with these aid sources. Students do not necessarily have to know the current interest rates for student loans; however, they should know that multiple sources of aid, including private loans, are available for financing postsecondary education.

- **Lenders and guarantors.** The providers of private loans play an important role in higher education financing and have proven that they can facilitate the co-existence of both FFEL programs and their private loan products. Because an increase in federal loan limits would not have a substantial impact on many private lenders (most will simply shift some of their portfolio volume from private loans to federal loans), lenders should continue to responsibly service market demand. This may include a practice of advocating students to borrow the maximum guaranteed federal student loans for which they are eligible, while at the same time offering private loans with favorable terms and conditions to meet any remaining financial need. In addition, private loan providers should remain cognizant of the increased debt burden many students are taking on and explore the possibility of working with institutions to counsel students on borrowing responsibly, especially those students who are taking on large debt burdens after accounting for both federal and private loans.

Ultimately, although these policy implications exist, private loans represent only a small portion of the total financial aid available to students. No one-size-fits-all solution exists that will either make private loans disappear or eliminate increasing amounts of student debt. Even if federal loan limits are raised in the next HEA reauthorization, private loans will continue to play an important role in financing postsecondary education, facilitating choice and providing financial means to students when they have exhausted other options.

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Appendices

I. Framework for Focus Group Discussions

II. Web-Based Survey Form

III. Characteristics of Survey Respondents and Total NASFAA Membership

IV. Detailed NPSAS Tables

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Appendix I

Financial Aid Administrator Focus Group Issues

1. What is your private loan volume now? How much has volume increased over the past five years?
2. Which types of students (graduate or undergraduate) have been most likely to receive private loans on your campus?
3. What primary reasons do undergraduate students give you for wanting to receive private loans? Are loans used to fill "unmet" financial need, or to help support "lifestyle" or "convenience" choices? Do undergraduates receive these loans for the same reasons as graduate/professional students?
4. How is the relationship between private loans and PLUS loans on your campus? Is parents' unwillingness/inability to get PLUS loans a factor in students' decisions to get private loans?
5. Generally speaking, what are the loan terms and conditions for private loans on your campus? How do these conditions and terms compare with federal student loans?
6. Do you use a preferred lender list for private loans? In general, do borrowers on your campus use the preferred lenders to get private loans? Have you been able to get better loan interest rates and other repayment terms for students who use preferred lenders?
7. If you do not use a preferred lender list, how do students at your school receive information on private loans?
8. Does your institution provide any debt counseling or other information for private loan borrowers? Is the information you provide any different from materials given to recipients of federal student loans?

Appendix II

IHEP/NASFAA Private Loans Questionnaire

For the following questions, if you are unsure of exact numbers, please provide your best estimate. Also, we would like to reiterate that no individual institutional data will ever be released publicly. All fields are required. Please type NA in the answer box if the question is not applicable to your institution.

Please identify your institution: ______________________________

Institution name: ______________________________

State: ______________________________

For the 2001-02 Academic Year:

1. Based on your total enrollment in fall 2001, what percentage of students at your institution received private loans?____%

2. What was the dollar amount of private loans at your institution? $________

3. What percentage of the private loan borrowers at your institution were:

   a. Undergraduates? ____%

   b. Graduate/professional students? ____%

4. At your institution, what was the average private loan amount borrowed by:

   a. Undergraduates? $________

   b. Graduate/professional students? $________

5. How has private loan volume changed at your institution over the past five years?

   ❑ Declined

   ❑ Stayed about the same

   ❑ Increased by less than 50%

   ❑ Increased by 50% to 100%

   ❑ Increased by 100% to 200%

   ❑ Increased by more than 200%

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Appendix III

Table A.1: Institutional characteristics of web survey respondents and the total NASFAA membership

	Survey respondents	Total NASFAA membership
REGION		
US service schools	0%	0%
New England	6%	8%
Mid East	18%	16%
Great Lakes	19%	15%
Plains	13%	12%
Southeast	19%	23%
Southwest	6%	9%
Rocky Mountains	5%	4%
Far West	11%	12%
Outlying areas	1%	1%
Missing	1%	1%
SECTOR		
Private not-for-profit 4-year	43%	40%
Public 4-year	21%	19%
Public 2-year or less	22%	29%
Proprietary	9%	7%
Other	5%	5%
FALL ENROLLMENT		
Small (less than 2500)	47%	49%
Medium (2500 to 4999)	18%	18%
Large (5000 or more)	32%	29%
Missing	4%	5%
CARNEGIE CLASSIFICATION		
Research/doctoral	14%	9%
Master's	20%	20%
Liberal Arts	20%	18%
Associate's	29%	32%
Specialized	11%	11%
Missing	6%	9%
AVERAGE IN-STATE, FULL-TIME TUITION		
Private not-for-profit 4-year	$14,615	$14,047
Public 4-year	$2,799	$2,483
Public 2-year or less	$1,562	$1,645
Proprietary	$8,659	$8,730
Other	$7,224	$7,303

Note: Based on data from the Integrated Postsecondary Education Data System (IPEDS), Institutional Characteristics and Fall Enrollment surveys.
Source: NCES 2000–01

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Appendix IV

Table A.2: Percentage distribution of students by private loan borrowing status, according to selected characteristics, 1999-2000

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
INSTITUTIONAL CHARACTERISTICS						
Institutional type						
Private not-for-profit 4-year	38.3%	13.3%	65.2%	35.8%	79.9%	53.5%
Public 4-year	33.7%	31.3%	26.3%	56.8%	18.3%	44.2%
Public 2-year	9.8%	43.1%	na	na	na	na
Private for-profit	8.2%	4.8%	1.9%	2.3%	0.0%	0.0%
Other (incl more than one)	10.1%	7.6%	6.5%	5.2%	1.8%	2.4%
Region						
New England	7.4%	5.0%	12.9%	6.3%	5.5%	6.9%
Mid East	21.1%	14.0%	21.9%	18.9%	25.5%	21.4%
Great Lakes	14.0%	15.1%	17.2%	17.7%	16.5%	17.5%
Plains	10.8%	6.5%	8.0%	8.1%	8.3%	7.7%
Southeast	19.2%	22.4%	15.3%	19.6%	20.2%	23.3%
Southwest	9.3%	12.2%	3.0%	10.6%	4.7%	10.6%
Rocky Mountains	3.2%	4.0%	1.6%	3.1%	1.7%	1.9%
Far West	13.1%	19.3%	18.2%	15.0%	15.3%	10.3%
Outlying Areas	1.9%	1.5%	2.1%	0.7%	2.5%	0.4%
Attend institution in state of legal residence						
Yes	78.6%	88.1%	70.3%	79.3%	60.9%	69.5%
No	21.4%	11.9%	29.7%	20.7%	39.1%	30.5%

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers
STUDENT BACKGROUND						
Gender						
Male	44.3%	43.7%	38.1%	41.4%	51.7%	56.0%
Female	55.7%	56.3%	61.9%	58.6%	48.4%	44.0%
Age						
23 years old or younger	75.2%	56.4%	12.1%	9.0%	22.0%	24.7%
24-29 years of age	13.3%	17.1%	44.4%	37.6%	64.6%	50.3%
30 years or older	11.5%	26.5%	43.5%	53.4%	13.4%	25.1%
Race/ethnicity						
White, non-Hispanic	70.7%	66.7%	70.6%	71.2%	80.2%	74.1%
Black, non-Hispanic	11.5%	11.8%	10.2%	8.6%	3.7%	5.6%
Hispanic or Latino	11.2%	11.5%	7.1%	6.8%	4.1%	4.7%
Asian	2.6%	4.8%	5.7%	9.7%	9.9%	11.3%
American Indian/Alaska Native	0.8%	0.8%	1.3%	0.4%	0.0%	0.9%
Native Hawaiian/other Pacific Islander	0.7%	0.8%	0.6%	0.4%	0.0%	0.5%
Other	1.1%	1.6%	2.0%	1.5%	1.4%	2.2%
More than one race	1.5%	2.0%	2.5%	1.5%	0.7%	0.8%
Marital status						
Single, never married	74.9%	61.5%	47.1%	38.6%	63.0%	61.7%
Married	12.3%	23.7%	43.6%	52.9%	33.4%	34.9%
Separated, divorced, or widowed	4.3%	7.2%	9.4%	8.4%	3.6%	3.4%

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Alternative loan borrowers	**Non-borrowers**	**Alternative loan borrowers**	**Non-borrowers**	**Alternative loan borrowers**	**Non-borrowers**
Dependency status						
Dependent	68.8%	50.0%	na	na	na	na
Independent without dependents	14.9%	22.2%	69.7%	61.7%	86.7%	79.9%
Independent with dependents	16.3%	27.8%	30.3%	38.3%	13.3%	20.1%
Household size						
One	11.2%	16.1%	55.6%	43.4%	77.1%	66.9%
2 to 3	32.9%	39.8%	30.1%	35.0%	16.8%	21.7%
4 or more	55.9%	44.1%	14.3%	21.6%	6.1%	11.4%
Citizenship						
US citizen	95.8%	93.4%	93.1%	88.0%	96.5%	93.3%
Resident alien	4.1%	4.7%	1.9%	2.6%	2.0%	4.4%
Foreign/international student	0.2%	1.9%	5.1%	9.4%	1.5%	2.4%
Parents' income (dependent students)						
Lowest quartile	21.3%	24.1%	na	na	na	na
Middle quartiles	54.3%	49.8%	na	na	na	na
Highest quartile	24.4%	26.1%	na	na	na	na
Independent student income (undergraduate)						
Lowest quartile	31.8%	23.7%	na	na	na	na
Middle quartiles	53.0%	49.6%	na	na	na	na
Highest quartile	15.2%	26.5%	na	na	na	na

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
Independent student income (grad/prof)						
Less than 5,000	na	na	16.9%	6.4%	34.3%	30.1%
5000 to 9999	na	na	7.0%	6.9%	16.8%	16.1%
10,000 to 19,999	na	na	18.1%	14.3%	20.5%	19.9%
20,000 to 29,999	na	na	14.8%	11.2%	16.5%	9.4%
30,000 to 49,999	na	na	15.3%	21.1%	5.4%	12.1%
50,000 or more	na	na	27.9%	40.1%	6.5%	12.4%
Parents' educational level						
Less than high school	4.8%	7.9%	8.5%	6.3%	1.6%	2.3%
High school graduate	28.0%	32.4%	23.5%	25.3%	14.4%	20.6%
Some college	25.3%	21.3%	15.0%	16.1%	10.7%	15.0%
Bachelor's degree	24.3%	21.6%	16.6%	23.7%	23.8%	19.6%
Advanced degree	17.7%	16.7%	36.4%	28.6%	49.5%	42.5%
Non-traditional status						
Zero characteristics	49.7%	24.2%	na	na	na	na
1 characteristic	19.6%	17.0%	na	na	na	na
2-3 characteristics	18.2%	32.6%	na	na	na	na
4 or more characteristics	12.5%	26.2%	na	na	na	na
ACADEMIC AND ENROLLMENT CHARACTERISTICS						
Delayed enrollment						
Did not delay enrollment	76.7%	62.7%	na	na	na	na
Delayed enrollment	23.4%	37.3%	na	na	na	na

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
Attendance status						
Exclusively full-time	78.2%	48.4%	65.3%	36.8%	86.9%	85.5%
Half time	6.0%	16.6%	18.7%	21.7%	4.2%	6.3%
Less than half time	3.4%	18.6%	6.0%	30.6%	0.7%	3.8%
Mixed	12.5%	16.4%	10.0%	10.8%	8.3%	4.4%
Class level (for loans)						
First year	35.9%	39.8%	42.3%	38.5%	28.2%	29.2%
Second year	23.5%	25.2%	36.7%	30.6%	18.7%	25.6%
Third year	19.4%	11.7%	10.2%	13.2%	39.6%	25.8%
Fourth year*	16.8%	14.1%	10.8%	17.7%	13.5%	19.4%
Fifth year	2.4%	1.8%	na	na	na	na
Graduate/first-professional	1.1%	1.1%	na	na	na	na
Unclassified/other	0.7%	6.4%	na	na	na	na
Work intensity while enrolled						
Did not work	18.8%	20.0%	22.4%	15.2%	48.8%	50.0%
Worked part-time	56.7%	40.2%	36.5%	24.3%	41.9%	36.9%
Worked full-time	24.5%	39.8%	41.2%	60.5%	9.3%	13.1%
Degree program (undergraduate)						
Certificate	6.7%	12.3%	na	na	na	na
Associate's degree	19.6%	38.1%	na	na	na	na
Bachelor's degree	73.3%	42.9%	na	na	na	na
No undergraduate degree	0.4%	6.8%	na	na	na	na

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers
Degree program (grad/prof)						
Business administration (MBA)	na	na	20.6%	17.1%	na	na
Education	na	na	18.7%	24.4%	na	na
Other M.A.	na	na	5.5%	7.5%	na	na
Other M.S.	na	na	16.0%	16.3%	na	na
Other master's degree	na	na	28.8%	15.7%	na	na
PhD (except education)	na	na	5.9%	11.3%	na	na
Education (any doctorate)	na	na	1.5%	3.6%	na	na
Other doctoral degree	na	na	3.0%	4.1%	na	na
Medicine (MD)	na	na	na	na	16.3%	30.8%
Other health science	na	na	na	na	14.3%	31.0%
Law (LLB or JD)	na	na	na	na	65.2%	31.8%
Theology	na	na	na	na	4.2%	6.4%
Housing						
On campus	35.9%	15.1%	10.7%	6.1%	15.6%	13.8%
Off campus	45.8%	60.5%	86.0%	87.7%	80.2%	82.3%
Living with parents	18.4%	24.4%	3.3%	6.2%	4.2%	3.9%
FINANCIAL CHARACTERISTICS						
Estimated cost of attendance (student budget)						
Less than $5,000	3.7%	32.2%	3.5%	26.0%	0.0%	1.7%
5,000 to 9,999	17.6%	31.3%	8.9%	21.3%	2.5%	3.7%
10,000 to 19,999	42.1%	28.7%	23.9%	32.7%	3.6%	23.9%
20,000 to 29,999	24.7%	5.7%	24.2%	13.2%	21.4%	32.2%
30,000 and higher	11.9%	2.2%	39.5%	6.8%	72.6%	38.5%

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
Tuition and fees						
Less than $1,000	6.7%	40.7%	0.0%	0.0%	0.0%	0.0%
1,000 to 4,999	42.0%	41.7%	35.2%	72.3%	8.7%	20.0%
5,000 to 9,999	18.6%	8.9%	23.5%	17.0%	12.0%	26.4%
10,000 to 19,999	24.2%	6.4%	20.0%	7.8%	31.1%	28.2%
20,000 or more	8.4%	2.3%	21.3%	2.9%	48.2%	25.4%
Non-tuition costs						
Less than $1,000	0.8%	6.8%	0.2%	5.3%	0.0%	0.2%
1,000 to 4,999	9.1%	34.8%	8.9%	32.2%	0.0%	3.7%
5,000 to 9,999	57.0%	48.6%	18.2%	26.4%	12.2%	15.9%
10,000 to 19,999	29.4%	9.8%	61.3%	34.5%	74.0%	72.3%
20,000 or more	3.8%	0.1%	11.3%	1.6%	13.7%	8.0%
EFC						
Zero	13.6%	17.7%	21.2%	12.7%	40.8%	34.6%
1 to 999	6.9%	5.9%	4.7%	2.5%	9.9%	6.9%
1,000 to 4,999	29.3%	22.1%	17.4%	21.2%	21.7%	25.5%
5,000 to 9,999	22.2%	22.2%	24.2%	22.7%	14.9%	16.0%
10,000 to 49,999	27.4%	31.1%	30.9%	40.0%	12.7%	16.2%
50,000 and higher	0.7%	1.0%	1.5%	0.9%	0.0%	0.8%
Financial need (student budget – EFC)						
Zero	15.7%	42.9%	14.7%	44.6%	2.2%	6.8%
1 to 999	2.1%	3.7%	1.1%	2.3%	0.6%	1.0%
1,000 to 4,999	12.8%	17.3%	5.0%	11.0%	0.6%	2.9%

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers	Private loan borrowers	Non-borrowers
Financial need (student budget – EFC)						
5,000 to 9,999	20.9%	19.3%	10.3%	12.4%	4.2%	6.0%
10,000 to 19,999	30.7%	13.8%	22.3%	18.2%	7.9%	27.0%
20,000 or higher	17.9%	3.1%	46.6%	11.5%	84.6%	56.3%
Unmet need (student budget – EFC – all grants and federal need based aid)						
Zero	26.9%	49.9%	17.7%	52.1%	3.2%	12.5%
1 to 999	6.1%	6.2%	2.9%	3.2%	1.1%	2.7%
1,000 to 4,999	29.7%	24.8%	11.1%	14.1%	0.7%	9.5%
5,000 to 9,999	22.2%	13.4%	18.2%	13.1%	10.6%	16.3%
10,000 to 19,999	13.3%	5.0%	29.4%	13.4%	30.1%	31.9%
20,000 or higher	1.8%	0.7%	20.7%	4.1%	54.4%	27.1%
Unmet need (student budget – EFC – all aid)						
Zero	74.9%	55.5%	80.6%	67.1%	61.8%	36.2%
1 to 999	5.4%	6.1%	3.3%	3.2%	4.3%	4.2%
1,000 to 4,999	13.8%	23.2%	6.8%	12.2%	11.6%	14.9%
5,000 to 9,999	4.8%	11.3%	6.4%	9.0%	8.3%	14.8%
10,000 to 19,999	0.9%	3.4%	2.4%	6.7%	9.2%	17.7%
20,000 or higher	0.1%	0.5%	0.6%	1.9%	4.8%	12.2%
Subsidized Stafford loan						
Received a subsidized loan	64.7%	21.9%	63.1%	19.3%	88.9%	68.6%
No loan	35.3%	78.1%	36.9%	80.7%	11.1%	31.4%

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Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
Unsubsidized Stafford loan						
Received an unsubsidized loan	39.1%	14.2%	55.8%	15.8%	85.6%	58.7%
No loan	60.9%	85.8%	44.3%	84.2%	14.4%	41.3%
Stafford loan combination						
Stafford subsidized only	38.7%	11.9%	13.2%	6.1%	5.6%	12.6%
Subsidized and unsubsidized loans	26.0%	10.0%	49.4%	12.7%	81.2%	56.0%
Unsubsidized loan only	13.1%	4.2%	5.3%	2.7%	3.7%	1.4%
No Stafford loan	22.2%	73.9%	32.1%	78.5%	9.5%	30.0%
Stafford loan (subsidized and unsubsidized) limits						
Not a borrower	23.8%	74.3%	35.3%	79.2%	11.0%	28.8%
Less than maximum	26.2%	12.6%	33.1%	16.6%	11.7%	31.5%
Maximum	50.0%	13.2%	31.7%	4.2%	77.3%	39.6%
Stafford loan (subsidized) limits						
Not a borrower	36.6%	78.5%	40.6%	81.3%	12.9%	30.1%
Less than maximum	25.5%	9.7%	19.6%	9.0%	5.8%	9.8%
Maximum	37.9%	11.8%	39.8%	9.7%	81.3%	60.1%
Stafford loan (unsubsidized) limits						
Not a borrower	61.7%	86.3%	47.5%	84.6%	16.2%	40.5%
Less than maximum	18.0%	7.5%	21.2%	11.4%	7.2%	21.0%
Maximum	20.3%	6.3%	31.3%	4.0%	76.5%	38.6%

Table A.2 (continued)

	Undergraduates		*Graduate*		*Professional*	
	Private loan borrowers	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**	**Private loan borrowers**	**Non-borrowers**
Parents borrowed PLUS loans (dependent only)						
Yes	13.0%	5.5%	na	na	na	na
No	87.0%	94.5%	na	na	na	na
Employer aid						
Received employer aid	93.3%	91.7%	16.6%	22.1%	3.5%	4.8%
Did not receive aid	6.8%	8.3%	83.4%	77.9%	96.5%	95.2%
Credit cards						
No credit cards	28.1%	29.6%	9.0%	9.8%	5.5%	9.3%
Payoff balances	29.8%	33.2%	39.4%	47.7%	42.4%	50.4%
Carry balances	42.1%	37.2%	51.7%	42.5%	52.1%	40.3%
Graduate assistantship						
No	na	na	93.7%	95.3%	95.5%	96.8%
Yes	na	na	6.4%	4.7%	4.5%	3.2%
Graduate fellowship						
No	na	na	92.0%	93.4%	96.0%	97.6%
Yes	na	na	8.0%	6.6%	4.0%	2.4%
Tuition discount with assistantship						
No	na	na	68.2%	39.5%	—	69.0%
Yes	na	na	31.8%	60.5%	—	31.0%

— Low sample size did not allow an estimate.
na Not applicable.
* For graduate/professional students, this category is fourth year or higher.
Source: NCES 1999-2000

Table A.3: Percentage of all students who received private loans in 1999–2000, by selected characteristics

	% of undergraduates	% of graduate students	% of prof. students
All students	3.6%	3.2%	16.1%
INSTITUTIONAL CHARACTERISTICS			
Institutional type			
Private not-for-profit 4-year	9.8%	5.6%	22.6%
Public 4-year	3.8%	1.6%	7.5%
Public 2-year	1.0%	na	na
Private for-profit	6.7%	3.3%	—
Other (incl more than one)	4.4%	3.9%	10.9%
Region			
New England	4.9%	6.8%	12.0%
Mid East	5.4%	3.6%	18.8%
Great Lakes	3.4%	3.0%	17.1%
Plains	5.5%	3.0%	14.2%
Southeast	3.0%	2.5%	15.5%
Southwest	2.9%	1.1%	6.9%
Rocky Mountains	2.9%	1.9%	—
Far West	2.7%	4.2%	22.5%
Outlying Areas	5.3%	9.1%	—
Attend institution in state of legal residence			
Yes	3.2%	2.9%	14.4%
No	6.3%	4.6%	19.8%
STUDENT BACKGROUND			
Gender			
Male	3.8%	3.0%	15.1%
Female	3.5%	3.4%	17.4%
Age			
23 years old or younger	3.7%	4.3%	14.6%
24-29 years of age	2.8%	3.8%	19.8%
30 years or older	1.6%	2.7%	9.3%
Race/ethnicity			
White, non-Hispanic	3.8%	3.2%	17.2%
Black, non-Hispanic	3.5%	3.8%	11.2%

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Race/ethnicity (cont.)			
Hispanic or Latino	3.5%	3.4%	14.4%
Asian	2.0%	1.9%	14.4%
American Indian/Alaska Native	3.3%	9.3%	—
Native Hawaiian/other Pacific Islander	3.2%	—	—
Other	2.6%	4.3%	—
More than one race	2.7%	5.5%	—
Marital status			
Single, never married	4.4%	4.0%	16.8%
Married	1.9%	2.8%	15.9%
Separated, divorced, or widowed	2.2%	3.7%	17.0%
Dependency status			
Dependent	4.9%	na	na
Independent without dependents	2.5%	3.6%	17.2%
Independent with dependents	2.2%	2.6%	11.3%
Household size			
One	2.8%	4.1%	18.1%
2 to 3	3.2%	2.8%	13.0%
4 or more	4.2%	2.2%	9.3%
Citizenship			
US citizen	3.7%	3.4%	16.6%
Resident alien	3.2%	2.3%	8.2%
Foreign/international student	0.3%	1.8%	—
Parents' income (dependent students)			
Lowest quartile	4.6%	na	na
Middle quartiles	5.4%	na	na
Highest quartile	4.3%	na	na
Independent student income (undergraduate)			
Lowest quartile	3.1%	na	na
Middle quartiles	2.5%	na	na
Highest quartile	1.3%	na	na

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Independent student income (grad/prof)			
Less than $5,000	na	8.2%	18.0%
$5000 to 9999	na	3.3%	16.6%
$10,000 to 19,999	na	4.1%	16.5%
$20,000 to 29,999	na	4.2%	25.2%
$30,000 to 49,999	na	2.4%	8.0%
$50,000 ore more	na	2.3%	9.2%
Parents' educational level			
Less than high school	2.5%	4.5%	—
High school graduate	3.5%	3.1%	12.0%
Some college	4.3%	3.1%	12.2%
Bachelor's degree	4.0%	2.4%	19.1%
Advanced degree	3.9%	4.2%	18.5%
Non-traditional status			
Zero characteristics	6.5%	na	na
1 characteristic	4.1%	na	na
2-3 characteristics	2.3%	na	na
4 or more characteristics	1.8%	na	na
ACADEMIC AND ENROLLMENT CHARACTERISTICS			
Delayed enrollment			
Did not delay enrollment	4.4%	na	na
Delayed enrollment	2.3%	na	na
Attendance status			
Exclusively full-time	5.4%	5.6%	16.3%
Half time	1.4%	2.8%	11.4%
Less than half time	0.8%	0.7%	3.3%
Mixed	3.2%	3.0%	26.4%
Class level (for loans)			
First year	3.3%	3.9%	15.5%
Second year	3.4%	4.3%	12.2%
Third year	5.9%	2.8%	22.6%
Fourth year*	4.3%	2.2%	11.7%
Fifth year	4.8%	na	na
Graduate/first-professional	3.9%	na	na
Unclassified/other	0.4%	na	na

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Work intensity while enrolled			
Did not work	3.3%	4.8%	16.0%
Worked part-time	5.1%	4.8%	18.1%
Worked full-time	2.3%	2.3%	12.1%
Degree program (undergraduate)			
Certificate	2.0%	na	na
Associate's degree	2.1%	na	na
Bachelor's degree	5.8%	na	na
No undergraduate degree	0.3%	na	na
Degree program (grad/prof)			
Business administration (MBA)	na	4.3%	na
Education	na	2.8%	na
Other M.A.	na	2.6%	na
Other M.S.	na	3.5%	na
Other master's degree	na	6.4%	na
PhD (except education)	na	1.9%	na
Education (any doctorate)	na	1.5%	na
Other doctoral degree	na	2.7%	na
Medicine (MD)	na	na	9.2%
Other health science	na	na	8.1%
Law (LLB or JD)	na	na	28.3%
Theology	na	na	11.2%
Housing			
On campus	8.3%	5.5%	17.9%
Off campus	2.9%	3.2%	15.8%
Living with parents	2.7%	1.8%	17.0%
FINANCIAL CHARACTERISTICS			
Estimated cost of attendance (student budget)			
Less than $5,000	0.5%	0.6%	—
5,000 to 9,999	2.1%	1.5%	11.6%
10,000 to 19,999	5.1%	2.7%	3.5%
20,000 to 29,999	13.0%	5.5%	10.6%
30,000 and higher	16.0%	14.7%	26.9%

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Tuition and fees			
Less than $1,000	0.7%	1.4%	—
1,000 to 4,999	3.6%	1.9%	9.1%
5,000 to 9,999	7.1%	4.7%	7.3%
10,000 to 19,999	11.9%	7.0%	16.8%
20,000 or more	11.1%	18.7%	26.9%
Non-tuition costs			
Less than $1,000	0.6%	0.2%	—
1,000 to 4,999	1.0%	1.1%	0.0%
5,000 to 9,999	4.0%	2.4%	13.6%
10,000 to 19,999	10.0%	5.4%	16.4%
20,000 or more	66.7%	15.8%	24.5%
EFC			
Zero	3.1%	5.4%	18.7%
1 to 999	4.3%	6.0%	23.5%
1,000 to 4,999	4.6%	2.9%	13.9%
5,000 to 9,999	3.6%	3.5%	13.6%
10,000 to 49,999	3.1%	2.4%	13.4%
50,000 and higher	2.1%	3.8%	—
Financial need (student budget – EFC)			
Zero	1.4%	1.2%	7.0%
1 to 999	1.9%	1.7%	—
1,000 to 4,999	2.7%	1.6%	—
5,000 to 9,999	3.9%	3.0%	11.8%
10,000 to 19,999	7.5%	4.1%	5.9%
20,000 or higher	18.1%	10.8%	21.9%
Unmet need (student budget – EFC – all grants and federal need based aid)			
Zero	2.0%	1.2%	5.7%
1 to 999	3.4%	2.6%	—
1,000 to 4,999	4.2%	2.8%	1.4%
5,000 to 9,999	5.7%	4.7%	11.3%
10,000 to 19,999	9.5%	6.4%	16.1%
20,000 or higher	11.2%	14.2%	27.5%

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Unmet need (student budget - EFC - all aid)			
Zero	4.7%	3.9%	24.7%
1 to 999	3.2%	3.3%	16.5%
1,000 to 4,999	2.1%	1.8%	13.0%
5,000 to 9,999	1.5%	2.3%	9.7%
10,000 to 19,999	1.0%	1.2%	9.1%
20,000 or higher	0.6%	1.1%	7.0%
Subsidized Stafford loan			
Received a subsidized loan	10.0%	9.6%	19.3%
No loan	1.7%	1.6%	7.6%
Unsubsidized Stafford loan			
Received an unsubsidized loan	9.5%	10.2%	21.3%
No loan	2.6%	1.8%	7.2%
Stafford loan combination			
Stafford subsidized only	10.6%	7.2%	8.3%
Subsidized and unsubsidized loans	9.2%	10.9%	21.3%
Unsubsidized loan only	10.3%	7.1%	—
No Stafford loan	1.2%	1.5%	6.8%
Stafford loan (subsidized and unsubsidized) limits			
Not a borrower	1.2%	1.5%	6.8%
Less than maximum	7.3%	6.3%	6.6%
Maximum	12.5%	20.1%	27.3%
Stafford loan (subsidized) limits			
Not a borrower	1.7%	1.6%	7.6%
Less than maximum	9.0%	6.8%	10.2%
Maximum	10.7%	12.0%	20.6%
Stafford loan (unsubsidized) limits			
Not a borrower	2.6%	1.8%	7.2%
Less than maximum	8.2%	5.8%	6.2%
Maximum	10.9%	20.7%	27.6%

Table A.3 (continued)

	% of under-graduates	% of graduate students	% of prof. students
Parents borrowed PLUS loans (dependent students only)			
Yes	11.5%	na	na
No	4.5%	na	na
Employer aid			
Received employer aid	3.0%	2.5%	12.4%
Did not receive aid	3.7%	3.5%	16.3%
Credit cards			
No credit cards	3.5%	3.2%	10.6%
Payoff balances	3.3%	2.9%	14.4%
Carry balances	4.1%	4.2%	20.6%
Graduate assistantship			
No	na	3.7%	16.4%
Yes	na	5.0%	21.9%
Graduate fellowship			
No	na	3.7%	16.4%
Yes	na	4.5%	—
Tuition discount with assistantship			
No	na	6.0%	22.9%
Yes	na	1.9%	0.0%

— Low sample size did not allow an estimate.
na Not applicable.
* For graduate/professional students, this category is fourth year or higher.
Source: NCES 1999–2000

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Table A.4: Average amounts received by students who borrowed private loans in 1999–2000, by selected characteristics

	Undergraduates	Graduate students	Professional students
ALL STUDENTS	$5,100	$9,140	$10,076
INSTITUTIONAL CHARACTERISTICS			
Institutional type			
Private not-for-profit 4-year	$6,340	$10,647	$10,770
Public 4-year	$3,920	$6,820	—
Public 2-year	$3,790	na	na
Private for-profit	$6,242	—	—
Other (incl more than one)	$4,689	—	—
Region			
New England	$6,736	—	—
Mid East	$6,162	$11,468	$11,279
Great Lakes	$4,244	$10,678	—
Plains	$4,474	—	—
Southeast	$4,381	$9,618	—
Southwest	$4,300	—	—
Rocky Mountains	$4,177	—	—
Far West	$6,206	$9,119	—
Outlying Areas	$2,809	—	—
Attend institution in state of legal residence			
Yes	$4,790	$7,857	$9,810
No	$6,266	$12,189	$10,490
STUDENT BACKGROUND			
Gender			
Male	$5,183	$10,424	$10,043
Female	$5,031	$8,348	$10,111
Age			
23 years old or younger	$7,176	$9,782	$10,317
24-29 years of age	$5,261	$10,881	$9,953
30 years or older	$6,368	$7,184	—
Race/ethnicity			
White, non-Hispanic	$5,304	$9,091	$8,809
Black, non-Hispanic	$4,618	—	—
Hispanic or Latino	$4,207	—	—

Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Race/ethnicity (cont.)			
Asian	$5,834	—	—
American Indian/Alaska Native	—	—	—
Native Hawaiian/other Pacific Islander	—	—	—
Other	—	—	—
More than one race	$4,904	—	—
Marital status			
Single, never married	$5,000	$9,742	$10,667
Married	$5,719	$8,771	$9,145
Separated, divorced, or widowed	$6,324	—	—
Dependency status			
Dependent	$4,847	na	na
Independent without dependents	$6,064	$9,620	$10,361
Independent with dependents	$5,287	$8,034	—
Household size			
One	$6,317	$9,729	$10,614
2 to 3	$4,969	$8,991	—
4 or more	$4,923	$7,164	—
Citizenship			
US citizen	$5,137	$8,940	$10,010
Resident alien	$4,313	—	—
Foreign/international student	—	—	—
Parents' income (dependent students)			
Lowest quartile	$4,260	na	na
Middle quartiles	$4,643	na	na
Highest quartile	$5,828	na	na
Independent student income (undergraduate)			
Lowest quartile	$5,359	na	na
Middle quartiles	$5,608	na	na
Highest quartile	$6,452	na	na
Independent student income (grad/prof)			
Less than $5,000	na	$8,348	$11,014
5,000 to 9,999	na	—	—

Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Independent student income (grad/prof)			
10,000 to 19,999	na	$8,478	—
20,000 to 29,999	na	$11,415	—
30,000 to 49,999	na	$7,873	—
50,000 or more	na	$9,270	—
Parents' educational level			
Less than high school	$4,381	—	—
High school graduate	$4,727	$9,814	—
Some college	$5,307	$9,665	—
Bachelor's degree	$5,341	$8,011	$10,522
Advanced degree	$5,422	$10,604	$10,351
Non-traditional status			
Zero characteristics	$4,952	na	na
1 characteristic	$4,939	na	na
2-3 characteristics	$5,815	na	na
4 or more characteristics	$4,894	na	na
ACADEMIC AND ENROLLMENT CHARACTERISTICS			
Delayed enrollment			
Did not delay enrollment	$4,998	na	na
Delayed enrollment	$5,495	na	na
Attendance status			
Exclusively full-time	$5,171	$10,787	$10,347
Half time	$5,623	$5,583	—
Less than half time	$3,160	—	—
Mixed	$4,947	—	—
Class level (for loans)			
First year	$4,182	$10,502	$10,464
Second year	$5,345	$8,276	—
Third year	$5,473	—	$10,987
Fourth year*	$5,895	$8,789	—
Fifth year	$7,079	na	na
Graduate/first-professional	—	na	na
Unclassified/other	—	na	na

Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Work intensity while enrolled			
Did not work	$5,575	$11,784	$11,198
Worked part-time	$5,069	$9,465	$9,275
Worked full-time	$4,716	$6,781	—
Degree program (undergraduate)			
Certificate	$5,426	na	na
Associate's degree	$4,265	na	na
Bachelor's degree	$5,334	na	na
No undergraduate degree	—	na	na
Degree program (grad/prof)			
Business administration (MBA)	na	$13,554	na
Education	na	$5,261	na
Other M.A.	na	—	na
Other M.S.	na	$9,045	na
Other master's degree	na	$8,267	na
PhD (except education)	na	$10,545	na
Education (any doctorate)	na	—	na
Other doctoral degree	na	—	na
Medicine (MD)	na	na	—
Other health science	na	na	—
Law (LLB or JD)	na	na	$11,744
Theology	na	na	—
Housing			
On campus	$5,381	—	—
Off campus	$5,222	$8,863	$10,121
Living with parents	$4,298	—	—
FINANCIAL CHARACTERISTICS			
Estimated cost of attendance (student budget)			
Less than $5,000	$1,346	—	—
5,000 to 9,999	$2,569	—	—
10,000 to 19999	$4,243	$5,415	—
20,000 to 29,999	$7,357	$8,076	$5,764
30,000 and higher	$9,466	$15,191	$11,720

Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Tuition and fees			
Less than $1,000	$4,078	—	—
1,000 to 4,999	$3,790	$5,335	—
5,000 to 9,999	$5,940	$8,735	—
10,000 to 19,999	$6,687	$10,690	$8,198
20,000 or more	$7,288	$16,245	$12,983
Non-tuition costs			
Less than $1,000	—	—	—
1,000 to 4,999	$2,478	—	—
5,000 to 9,999	$4,098	$5,817	—
10,000 to 19,999	$6,891	$10,484	$10,293
20,000 or more	$13,684	—	—
EFC			
Zero	$4,154	$8,620	$10,814
1 to 999	$4,941	—	—
1,000 to 4,999	$4,876	$7,413	$8,519
5,000 to 9,999	$5,047	$10,562	—
10,000 to 49,999	$5,757	$9,660	—
50,000 and higher	—	—	—
Financial need (student budget – EFC)			
Zero	$4,052	$4,484	—
1 to 999	—	—	—
1,000 to 4,999	$3,746	—	—
5,000 to 9,999	$3,852	—	—
10,000 to 19,999	$5,513	$6,990	—
20,000 or higher	$8,371	$13,465	$10,866
Unmet need (student budget – EFC – all grants and federal need based aid)			
Zero	$4,086	$5,043	—
1 to 999	$3,632	—	—
1,000 to 4,999	$3,860	—	—
5,000 to 9,999	$5,064	$6,745	—
10,000 to 19,999	$9,277	$9,795	$6,757
20,000 or higher	$16,643	$17,106	$13,255

Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Unmet need (student budget - EFC - all aid)			
Zero	$5,717	$10,024	$10,666
1 to 999	$3,324	—	—
1,000 to 4,999	$3,059	—	—
5,000 to 9,999	$3,745	—	—
10,000 to 19,999	—	—	—
20,000 or higher	—	—	—
Subsidized Stafford loan			
Received a subsidized loan	$5,294	$10,680	$10,287
No loan	$4,763	$6,883	—
Unsubsidized Stafford loan			
Received an unsubsidized loan	$5,880	$11,211	$10,469
No loan	$4,606	$6,852	—
Stafford loan combination			
Stafford subsidized only	$4,777	$6,958	—
Subsidized and unsubsidized loans	$6,042	$11,690	$10,752
Unsubsidized loan only	$5,551	—	—
No Stafford loan	$4,338	$6,999	—
Stafford loan (subsidized and unsubsidized) limits			
Not a borrower	$4,338	$6,999	—
Less than maximum	$4,286	$8,222	—
Maximum	$5,889	$12,485	$10,659
Stafford loan (subsidized) limits			
Not a borrower	$4,763	$6,883	—
Less than maximum	$4,134	$8,242	—
Maximum	$6,076	$11,882	$10,358
Stafford loan (unsubsidized) limits			
Not a borrower	$4,606	$6,852	—
Less than maximum	$5,191	$9,234	—
Maximum	$6,398	$12,546	$10,515
Parents borrowed PLUS loans (dependent only)			
Yes	$5,849	na	na
No	$4,690	na	na

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Table A.4 (continued)

	Undergraduates	Graduate students	Professional students
Employer aid			
Received employer aid	$4,483	$6,878	—
Did not receive aid	$5,144	$9,590	$10,178
Credit cards			
No credit cards	$4,535	—	—
Payoff balances	$5,596	$10,126	$9,469
Carry balances	$5,269	$8,957	$10,871
Graduate assistantship			
No	na	$9,300	$10,400
Yes	na	—	—
Graduate fellowship			
No	na	$9,184	$10,050
Yes	na	—	—
Tuition discount with assistantship			
No	na	$8,842	—
Yes	na	—	—

— Low sample size did not allow an estimate.
na Not applicable.
* For graduate/professional students, this category is fourth year or higher.
Source: NCES 1999–2000

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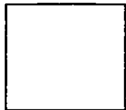

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