Student Aid Policy Analysis

Characteristics of Private Student Loan Borrowers Who Do Not Use Federal Education Loans

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EXECUTIVE SUMMARY

More than one quarter of undergraduate private student loan borrowers and nearly one third of graduate private student loan borrowers do not borrow from the federal Stafford loan program. Very little is understood about why these students do not borrow from the federal student loan programs, given that the federal Stafford loan is cheaper, more available and has better repayment terms than private student loans. This policy paper discusses several previously undiscovered reasons why some students do not borrow federal first, demonstrates that these factors account for much of this trend and proposes changes in student aid policy to address the causes of this trend.

Private student loan utilization by borrowers who do not use federal Stafford loans is growing at a faster rate than private student loan utilization by borrowers who also borrow from the federal Stafford loan program. Private student loan volume from borrowers who did not use federal Stafford loans grew at a 40.8% annual rate from 2003-04 to 2007-08 and at a 32.1% annual rate from 1999-00 to 2007-08. This compares with 27.8% and 23.9% for borrowers who used federal Stafford loans. The number of private student loan borrowers who did not use federal Stafford loans grew at a 34.5% annual rate from 2003-04 to 2007-08 and at a 26.9% rate from 1999-00 to 2007-08. This compares with 28.0% and 23.1% for borrowers who used federal Stafford loans.

The most significant cause of private student loan borrowers failing to borrow from the federal Stafford loan program is as follows:

- **Failure to submit the Free Application for Federal Student Aid (FAFSA).** More than a quarter (26.7%) of private student loan borrowers did not borrow from the federal Stafford loan program in 2007-08 (26.0% for undergraduate students and 32.6% for graduate and professional students). Overall, three-fifths (60.2%) of these borrowers did not submit the FAFSA (55.8% for undergraduate students and 88.0% for graduate and professional students). If borrowers who don't submit the FAFSA are excluded, the percentage of private student loan borrowers who did not borrow from the federal Stafford loan program decreases to 12.7% (13.4% for undergraduate students and 5.5% for graduate and professional students). The complexity of the federal Stafford loan application process, which requires the submission of a FAFSA, is probably a key driver of reliance on private student loans.

The following are also significant characteristics of borrowers who borrow private student loans instead of the federal Stafford loan. [1] These statistics are limited to the subset of borrowers who submitted the FAFSA.

- **Borrowers with lower total debt.** More than half (51.4%) of undergraduate private student loan borrowers with total debt less than $5,000 borrowed from private student loan programs instead of the federal Stafford loan program in 2007-08 (87.1% of those with total debt less than $2,500), accounting for half (50.6%) of private student loan borrowers who did not borrow from the federal Stafford loan program.

- **Borrowers with lower out-of-pocket cost.** More than two-thirds (69.8%) of undergraduate private student loan borrowers with a net price after grants of less than $5,000 borrowed from private student loan programs instead of the federal Stafford loan program, accounting for almost a quarter (23.4%) of private student loan borrowers who did not borrow from the federal Stafford loan program.

- **Borrowers attending colleges with a lower cost of attendance or lower tuition and fees.** More than four-fifths (80.4%) of undergraduate private student loan borrowers attending colleges with a cost of attendance of less than $5,000 and more than a quarter (27.4%) of undergraduate private student loan borrowers attending colleges with tuition and fees under $5,000 borrowed private student loans instead of federal Stafford loans, accounting for 15.2% and 60.9%, respectively, of private student loan borrowers who did not borrow from the federal Stafford loan program.

- **Enrollment at public colleges, especially public 2-year colleges.** Two-fifths (40.7%) of undergraduate private student loan borrowers attending public 2-year colleges borrowed from private student loan programs instead of the federal Stafford loan program in 2007-08, accounting for more than a third (34.3%) of private student loan borrowers who did not borrow from the federal Stafford loan program.

- **Several other factors.** Other significant characteristics of undergraduate private student loan borrowers who borrow private student loans instead of federal Stafford loans include divorce or separation of a dependent student's parents; no financial assistance from the student's parents; part-time enrollment; total income under $50,000; Hispanic, Asian or Native American heritage; enrollment in Puerto Rican colleges; English is not the primary language; and GPA less than 2.0 on a 4.0 scale.

While stagnant federal Stafford loan limits account for more than two-thirds (68.7%) of the growth in private student loan volume, further increases in federal student loan limits will not address the reasons why some private student loan borrowers do not use the federal student loan programs. Other solutions are needed in addition to further federal student loan limit and funding increases. Possible solutions include:

- **Simplifying the loan application process for unsubsidized Stafford and PLUS loans.** This could include repealing the requirement to submit a FAFSA for students who intend

[1] Percentages may sum to more than 100% because there may be more than one factor contributing to a student's borrowing from private student loan programs instead of the federal Stafford loan program.

to rely only on these loans or simplifying the FAFSA enough that completion and approval takes less than 15 minutes (perhaps integrating the form into the Master Promissory Note).

- **Improve student aid counseling at all colleges, especially public 2-year institutions.** One could require all college-bound high school seniors and current college students to participate in a student aid counseling session that discuss student aid options (including unsubsidized Stafford and PLUS loans), emphasized the importance of submitting the FAFSA and provided proactive assistance in completing the form.

- **Make submission of the FAFSA mandatory for all college students.**

- **Adopt policy and statutory changes to permit colleges to participate in the federal student loan programs without jeopardizing eligibility for the Pell Grant program.** Currently, colleges with a high cohort default rate lose eligibility for all federal student aid programs, including grant and work-study programs. More than 250 community colleges, who disproportionately serve at-risk populations which are more likely to default on student loans, have opted out of the federal education loan programs in order to preserve eligibility for the Pell Grant.[2] But many students at these colleges must still borrow to pay for living expenses, despite the low institutional costs. This forces them to borrow from higher cost private student loan programs.

  It seems inconsistent to maintain guidance that prohibits colleges from reducing federal loan limits to just institutional charges as a default-aversion technique[3] while simultaneously maintaining student aid eligibility criteria that encourage some colleges to opt out of the federal education loan programs entirely for similar reasons.

  Cohort default rates should be disconnected from the Pell Grant program, so that cohort default rates affect only eligibility for loans, not other student aid programs. Some other measure of institutional quality could be used to determine eligibility for Pell Grants. In addition, colleges should not be penalized for defaults by at-risk populations such as low income students and first-generation college students. These students should be excluded from the cohort default rate calculation, perhaps by substituting grants for loans in the financial aid package.

In addition, the quadrennial frequency of the National Postsecondary Student Aid Study (NPSAS) makes it difficult to evaluate the impact of statutory and regulatory changes in student aid programs. For example, since the 2003-04 NPSAS, Congress enacted several major pieces of

[2] *Community College Students Lack Access to Affordable Loans*, Issue Brief, Project on Student Debt, April 2008. www.ticas.org/files/pub/denied.pdf

[3] For-profit and community colleges have sought to use the authority under section 479A(c) of the Higher Education Act of 1965 to reduce loan limits in a non-discriminatory fashion on a per-program or per-major basis, consistent with the expected starting salaries for graduates with these degrees or in these fields of study. Guidance from the US Department of Education, concerned that these colleges might limit borrowing to just institutional charges, has precluded any practical use of this authority. Perhaps President Obama's FY2010 budget proposal for a six-fold increase in Perkins Loan funding provides a "dual" solution to this problem. Instead of providing selective authority to *reduce* loan limits, President Obama's proposal would effectively provide colleges with the ability to selectively *increase* unsubsidized Stafford loan limits on a case-by-case basis. (The reengineered Perkins Loan program would be in all respects identical to the unsubsidized Stafford loan except for the interest rate.)

student aid legislation, including the Higher Education Reconciliation Act of 2005, the College Cost Reduction and Access Act of 2007, the Ensuring Continued Access to Student Loan Act of 2008 and the Higher Education Opportunity Act of 2008. The changes included the establishment of the Grad PLUS loan program, increases in annual and aggregate loan limits, changes to student loan interest rates, and increases in the Pell Grant program, among numerous other changes.

To permit more timely analysis of student aid policy changes, the frequency of the NPSAS should be increased from once every four years to once a year. Conducting the NPSAS is an expensive and time-consuming enterprise because of the large sample size. If it is not possible to increase the funding four-fold to permit an annual study, perhaps smaller studies could be conducted in between the larger studies. The larger study has a confidence interval of about 0.29% at the 95% confidence level. Using a sample size that is 1/10th the size of the larger study would yield a confidence interval of 0.92%. That is accurate enough to be useful for many analyses, but could be accomplished with less than twice the funding instead of four times the funding. Moreover, some data at the larger sample size could be produced automatically from the National Student Loan Data System (NSLDS).

METHODOLOGY

The analysis in this report was performed using the data analysis systems for the 1999-00, 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS).[4] The NPSAS is a large survey conducted every four years by the National Center for Education Statistics at the US Department of Education. The 1999-00 NPSAS surveyed 50,000 undergraduate students and 12,000 graduate and professional students, the 2003-04 NPSAS surveyed 80,000 undergraduate students and 11,000 graduate and professional students and the 2007-08 NPSAS surveyed 114,000 undergraduate students and 14,000 graduate and professional students.

This analysis relied on the PRIVLOAN variable, which was added in the 1999-00 NPSAS. The PRIVLOAN variable records the amount of private commercial or alternative loans received by students during the academic year from financial institutions or lenders like Sallie Mae, First Marblehead, JP Morgan Chase, Citibank Student Loan Corporation and Discover Student Loan. This variable does not include loans from friends and family. It also does not include state loans, which are recorded in the STLNAMT variable.[5]

GROWTH IN PRIVATE STUDENT LOAN UTILIZATION

Private student loan volume totaled $22.5 billion in 2007-08, representing a 30.8% annual increase in volume since the 2003-04 NPSAS and a 25.8% annual increase in volume since the 1999-00 NPSAS. Undergraduate private student loan volume increased at a 35.3% annual rate to $19.4 billion and graduate and professional private student loan volume increased at a 13.2%

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[4] A weighting problem in the 2003-04 NPSAS may have caused federal loan statistics to have been overstated in the 2003-04 NPSAS. The 2003-04 data in this report will be revisited when the problem is corrected in a few months.

[5] State loans were received by 79,400 undergraduate students in 2007-08 (0.4% of the population) and totaled $487.5 million. State loans were received by 0.1% of graduate and professional students in 2007-08 and the data does not satisfy NPSAS reporting standards. Due to the small sample size and the difficulty of combining state loan data with private student loan data, state loans were omitted from the report’s analysis. This omission is unlikely to significantly affect the accuracy of the report’s findings.

annual rate to $3.1 billion. The number of private student loan borrowers totaled 3.3 million in 2007-08, representing 29.6% annual growth since the 2003-04 NPSAS and 24.0% annual growth since the 1999-00 NPSAS. The number of undergraduate private student loan borrowers increased at a 32.0% annual rate to 3.0 million and the number of graduate and professional private student loan borrowers increased at a16.0% annual rate to 370,000. The growth in graduate and professional private student loan volume and borrowers in 2007-08 was similar to the increase in 2003-04, indicating that most of the growth was due to undergraduate private student loans. 91.8% of the growth in volume and 92.3% of the growth in the number of borrowers was attributable to undergraduate borrowers.

The primary driver of the growth in volume was the growth in the number of borrowers, not changes in the average loan amount. 94.4% of the overall growth in private student loan volume is attributable to the increase in the number of borrowers.

The following table summarizes the growth in private student loan volume over the last decade.[6]

Total Private Student Loan Volume						
NPSAS	Undergraduate		Graduate		Total	
	Loan Volume	Annual Growth	Loan Volume	Annual Growth	Loan Volume	Annual Growth
2007-08	$19,360,127,890	35.3%	$3,106,557,790	13.2%	$22,466,685,680	30.8%
2003-04	$5,777,807,000	23.6%	$1,893,459,400	14.1%	$7,671,266,400	20.9%
1999-00	$2,472,261,750		$1,117,551,440		$3,589,813,190	67.6%

The following table summarizes the growth in the number of private student loan borrowers over the last decade.

Number of Private Student Loan Borrowers						
NPSAS	Undergraduate		Graduate		Total	
	Number of Borrowers	Annual Growth	Number of Borrowers	Annual Growth	Number of Borrowers	Annual Growth
2007-08	2,963,300	32.0%	370,300	16.0%	3,333,600	29.6%
2003-04	977,500	19.4%	204,400	15.3%	1,181,900	18.6%
1999-00	481,500		115,600		597,100	67.9%

The dramatic annual growth in private student loan volume and the number of private student loan borrowers compares with much slower growth in federal student loans. Stafford loan volume grew at a 4.1% annual rate and the number of Stafford loan borrowers great at a 3.6% annual rate in 2007-08.

Stagnant annual and aggregate loan limits for federal student loans are a key driver of growth in private student loan volume. $9.6 billion (70.9%) of undergraduate private student loan volume growth, $528 million (43.5%) of graduate and professional student private student loan volume growth, and $10.2 billion (68.7%) of overall private student loan volume growth from 2003-04 to 2007-08 is attributable to Stafford loan borrowers. However, as this paper will demonstrate, failure to file the Free Application for Federal Student Aid (FAFSA), the complexity of the loan application process, enrollment at public 2-year institutions, divorce of a dependent student's

[6] Data for 1995-96 was omitted because the 1995-96 NPSAS did not include the PRIVLOAN variable found in later studies. The OTHLNAMT variable from the 1995-96 NPSAS is not necessarily comparable.

parents, a lack of financial assistance from a dependent student's parents and other factors also contribute to the striking growth in private student loan volume and account for a significant portion of private student loan borrowing by students who do not borrow from the Stafford loan program.

The number of borrowers who borrow private student loans in lieu of federal Stafford loans has also been growing, both overall and as a percentage of private student loans. The number of undergraduate and graduate private student loan borrowers who did not borrow from the federal Stafford loan program was 890,000 in 2007-08, corresponding to an annualized growth rate of 34.5%. The private student loan volume from these borrowers was $6.2 billion, corresponding to an annualized growth rate of 40.8%. These borrowers accounted for 27.7% of private student loan volume and 26.7% of private student loan borrowers in 2007-08, up from 20.6% and 23.0%, respectively, in 2003-04.

The following table summarizes the growth in private student loan volume over the last decade from private student loan borrowers who did not borrow from the federal Stafford loan program.

Total Private Student Loan Volume from Borrowers Who Did Not Use Federal Stafford Loans						
NPSAS	Undergraduate		Graduate		Total	
	Loan Volume	Annual Growth	Loan Volume	Annual Growth	Loan Volume	Annual Growth
2007-08	$5,138,951,850	44.2%	$1,077,037,650	28.8%	$6,215,989,500	40.8%
2003-04	$1,188,904,860	25.8%	$391,173,790	18.8%	$1,580,078,650	23.9%
1999-00	$474,864,840		$196,240,060		$671,104,900	

The following table summarizes the growth in the number of private student loan borrowers over the last decade from private student loan borrowers who did not borrow from the federal Stafford loan program.

Number of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans						
NPSAS	Undergraduate		Graduate		Total	
	Number of Borrowers	Annual Growth	Number of Borrowers	Annual Growth	Number of Borrowers	Annual Growth
2007-08	769,500	36.4%	120,900	24.9%	890,400	34.5%
2003-04	222,300	20.1%	49,700	17.9%	272,000	19.7%
1999-00	106,800		25,700		132,500	

The following table summarizes the percentage of private student loan volume attributable to borrowers who did not borrow from the Stafford loan program.

Percentage of Private Student Loan Volume from Borrowers Who Did Not Use Federal Stafford Loans			
NPSAS	Undergraduate	Graduate	Total
2007-08	26.5%	34.7%	27.7%
2003-04	20.6%	20.7%	20.6%
1999-00	19.2%	17.6%	18.7%

The following table summarizes the percentage of private student loan borrowers attributable to borrowers who did not borrow from the Stafford loan program.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans			
NPSAS	**Undergraduate**	**Graduate**	**Total**
2007-08	26.0%	32.6%	26.7%
2003-04	22.7%	24.3%	23.0%
1999-00	22.2%	22.2%	22.2%

For comparison with these figures, the percentage of Stafford loan borrowers who also borrow private student loans has increased. 30.4% of undergraduate Stafford loan borrowers also borrowed private student loans in 2007-08, compared with 11.9% in 2003-04 and 8.2% in 1999-00. 18.5% of graduate and professional student Stafford loan borrowers also borrowed private student loans in 2007-08, compared with 13.8% in 2003-04 and 11.6% in 1999-00.

PRIMARY CAUSE: A FAILURE TO SUBMIT THE FAFSA

The number one cause of students borrowing from private student loan programs instead of the federal Stafford loan program is failure to apply for federal student aid.[7] Submitting the Free Application for Federal Student Aid (FAFSA) is a prerequisite for Stafford loan eligibility. Of undergraduate students borrowing from private student loan programs but not the Stafford loan program, 55.8% did not submit a FAFSA in 2007-08 and 51.9% did not submit a FAFSA in 2003-04. If these students are excluded from the overall percentages, the percentage of private student loan borrowers who did not borrow from the federal Stafford loan program decreases from 26.0% to 13.4% in 2007-08 and from 22.7% to 12.4% in 2003-04.

A failure to submit the FAFSA has an even greater impact on private student loan borrowing by graduate and professional students. Of graduate and professional students borrowing from private student loan programs but not the Stafford loan program, 88.0% did not submit a FAFSA in 2007-08 and 68.9% did not submit a FAFSA in 2003-04.[8] If these students are excluded from the overall percentages, the percentage of private student loan borrowers who did not borrow from the federal Stafford loan program decreases from 32.6% to 5.5% in 2007-08 and from 24.3% to 9.1% in 2003-04.

The FAFSA is required before students can borrow from the federal Stafford loan program to ensure that students who qualify for federal grants, work-study awards and subsidized loans exhaust their eligibility before resorting to unsubsidized education loans. However, it appears that the complexity of the FAFSA may cause some students to prefer private student loans because these loans involve a much simpler application process. The Paperwork Reduction Act of 1995 notice on the FAFSA says that "the time required to complete this form is estimated to be one hour", but many families find that it takes them a lot longer.[9] The time requirement for

[7] This may seem obvious in hindsight, but until now public policy advocates have overlooked this cause of a failure to borrow federal first.

[8] 15.4% of graduate and professional students and 3.3% of undergraduate students who don't submit the FAFSA are international students. If international students are excluded, 84.7% of graduate and professional students and 54.8% of undergraduate students who borrow private but not federal did not submit the FAFSA in 2007-08.

[9] The time estimate for the FAFSA has remained unchanged at one hour despite increases in the length and complexity of the form.

the Master Promissory Note is also estimated at one hour. On the other hand, it is not uncommon for advertisements for private student loans to highlight this difference between the federal and private student loans. Examples from actual private student loan advertisements include:

- ✓ "No FAFSA Required"
- ✓ "Easy application process"
- ✓ "Get a credit response in 3 minutes or less"
- ✓ "Fast decisions -- preliminary approval usually within minutes".

Students who believe that they will not qualify for federal grants or who want only loans might prefer an application process that takes just a few minutes to one that requires hours of work despite the lower cost and better repayment terms of federal education loans. Thus requiring the FAFSA as a prerequisite yields a counter-productive result especially among students who do not qualify for federal need-based grants such as graduate and professional students.

There are several possible solutions to this problem:

- Repeal the requirement to submit a FAFSA for students who intend to borrow from just the unsubsidized Stafford and PLUS loan programs.[10]
- Simplify the FAFSA enough that completion and approval takes less than 15 minutes. Perhaps the form could then be integrated into the Master Promissory Note yielding a combined loan application and promissory note.
- Require all students to submit the FAFSA.
- Promote the FAFSA much more aggressively to college-bound high school seniors and current college students, especially at 2-year institutions.

Prefilling the FAFSA form with information from federal income tax returns does not achieve enough simplification of the form. In order to get completion time under an hour it is necessary to simplify the formula in addition to simplifying the form. Mark Kantrowitz's September 27, 2002 position paper *Recommendations for the 2003 Reauthorization of the Higher Education Act of 1965* was the first student aid policy paper to recommend obtaining FAFSA data from the IRS and simplifying the need analysis formula to enable the "FAFSA form [to] potentially be replaced with a postcard".[11] Possible approaches to simplification that could fit the FAFSA on a postcard include Mark Kantrowitz's proposal to use a slightly modified version of the income-based repayment formula for need analysis[12] and the Rethinking Student Aid Study Group's 150% to 250% of the poverty-line phase-out proposal.[13]

OTHER FACTORS

The following analysis is limited to undergraduate borrowers who applied for federal student aid by submitting the FAFSA. This should help identify additional reasons why some undergraduate students borrow from private student loan programs instead of or in addition to federal Stafford loans in 2007-08. It also limits borrowers to US citizens and permanent residents.

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[10] Technically, students who intend to borrow from just the Parent PLUS loan program are not required to submit a FAFSA, but must instead complete a loan application and promissory note. The FAFSA is required for Stafford and Grad PLUS loan borrowers. Grad PLUS loan borrowers are also required to exhaust Stafford loan eligibility before relying on the Grad PLUS loan.

[11] www.finaid.org/educators/reauthorization2003.pdf

[12] www.finaid.org/calculators/simplifiedefc.phtml

[13] professionals.collegeboard.com/policy-advocacy/affordability/student-aid

Borrowers with lower total debt were much more likely to borrow private student loans instead of Stafford loans. For example, 87.1% of borrowers with less than $2,500 in total debt substituted private student loans for federal Stafford loans in 2007-08 and 38.6% of borrowers with $2,500 to $5,000 in total debt. These students represent 22.6% and 28.0% of private student loan borrowers who did not borrow federal Stafford loans, totaling slightly more than half. Since the loan amounts are small, that suggests that these borrowers would not have exhausted the federal loan limits. The following table provides additional detail concerning the relationship between total debt and borrowers who prefer private loans over federal Stafford loans.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by Total Debt (Submitted FAFSA)		
Total Debt	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Less than $2,500	87.1%	22.6%
$2,500 to $4,999	38.6%	28.0%
$5,000 to $7,499	16.7%	19.2%
$7,500 to $9,999	7.2%	9.3%
$10,000 to $19,999	4.7%	15.0%
$20,000 to $29,999	5.6%	4.0%
$30,000 to $39,999	15.9%	1.8%
More than $40,000	8.8%	0.2%

A similar pattern is evident in the out-of-pocket cost (net price after grants), cost of attendance, total aid (all sources) and tuition and fees figures.

The following table shows the relationship between out-of-pocket cost and likelihood of borrowing private student loans instead of federal Stafford loans. Borrowers with a lower out-of-pocket cost are more likely to borrow private student loans instead of federal Stafford loans.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by Out-of-Pocket Cost (Submitted FAFSA)		
Net Price After Grants	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Less than $2,500	81.6%	4.2%
$2,500 to $4,999	67.7%	19.2%
$5,000 to $7,499	30.4%	17.0%
$7,500 to $9,999	19.7%	13.5%
$10,000 to $24,999	8.2%	35.1%
More than $25,000	6.6%	10.9%

The following table shows the relationship between cost of attendance and likelihood of borrowing private student loans instead of federal Stafford loans. Borrowers with a lower cost of attendance are more likely to borrow private student loans instead of federal Stafford loans.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by Cost of Attendance (Submitted FAFSA)		
Cost of Attendance	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Less than $5,000	80.4%	15.2%
$5,000 to $7,499	42.6%	15.2%
$7,500 to $9,999	27.0%	12.5%
$10,000 to $12,499	20.2%	11.8%
$12,500 to $14,999	12.5%	8.6%
$15,000 to $17,499	9.7%	8.2%
$17,500 to $19,999	8.6%	6.9%
More than $20,000	5.9%	21.7%

The following table shows the relationship between total aid (all sources) and the likelihood of borrowing private student loans instead of federal Stafford loans. Borrowers with less aid are more likely to borrow private student loans instead of federal Stafford loans.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by Total Aid (Submitted FAFSA)		
Total Aid	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Less than $2,500	92.6%	10.5%
$2,500 to $4,999	53.8%	23.7%
$5,000 to $7,499	26.3%	20.4%
$7,500 to $9,999	12.6%	11.7%
$10,000 to $12,499	11.0%	10.6%
$12,500 to $14,999	5.9%	5.3%
$15,000 to $17,499	6.1%	5.2%
$17,500 to $19,999	4.6%	2.7%
More than $20,000	5.2%	10.0%

Of students attending colleges that charge less than $5,000 in tuition and fees, 27.4% borrow private student loans instead of federal Stafford loans, compared with 7.4% of students attending colleges that charge more than $5,000 in tuition and fees. These students represent 60.9% and 39.1%, respectively, of the students who borrow private student loans instead of federal Stafford loans.

These factors are probably all related, suggesting that students at low cost schools who are less likely to receive financial aid are more likely to borrow private student loans instead of federal Stafford loans.

The following tables suggest that students at public colleges, especially 2-year public colleges, are much more likely to borrow private student loans instead of federal Stafford loans. This may be due to more than 250 community colleges having opted out of the federal student loan programs.

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by NPSAS Institution Level (Submitted FAFSA)		
Institution Level	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
4-year	9.9%	54.3%
2-year	23.6%	36.0%
Less than 2-year	22.5%	9.7%

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by NPSAS Institution Control (Submitted FAFSA)		
Institution Control	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Public	22.4%	68.5%
Private Non-Profit	9.2%	18.1%
Private For-Profit	5.5%	13.3%

Percentage of Private Student Loan Borrowers Who Did Not Use Federal Stafford Loans by NPSAS Institution Type (Submitted FAFSA)[14]		
Institution Type	**Percentage Borrowing Private But Not Stafford**	**Distribution of Borrowers**
Public 4-year	15.3%	33.7%
Public 2-year	40.7%	34.3%
Public < 2-year	30.5%	0.5%
Private Non-Profit 4-year	9.2%	17.8%
Private Non-Profit < 4-year	11.8%	0.5%
Private For-Profit 2-year +	2.1%	4.2%
Private For-Profit < 2-year	22.3%	9.0%

Other borrower characteristics that have an impact on the likelihood of borrowing private student loans instead of federal Stafford loans include the following, which should be compared with the 13.4% overall rate of private student loan borrowers who do not borrow from the federal Stafford loan program for federal aid applicants in the 2007-08 NPSAS data set. Except where noted, similar results were found in the 2003-04 NPSAS data set.

- Borrowers who are married (10.5%) or separated (9.5%) are less likely to borrow private instead of federal than borrowers who are single (14.0%). They represent 11.2%, 1.8% and 87.0%, respectively, of the students who borrow private instead of federal.
- Hispanic or Latino students (18.8%), Asian students (19.1%) and American Indian or Alaska Native students (19.3%) are more likely to borrow private instead of federal. White students (12.5%), Black or African American students (11.8%), Native Hawaiian

[14] The Institute for College Access and Success (TICAS) report *Quick Facts About Financial Aid and Community Colleges, 2007-08*, May 2009 (www.ticas.org/files/pub/cc_fact_sheet.pdf) found that "Of these private loan borrowers, 37% at community colleges have not taken out federal Stafford loans. In comparison, only 13% of those who borrow private loans at public four-year colleges, and 9% of those at private four-year colleges, have no federal Stafford loans." These statistics differ from those reported in this table because the TICAS report restricted its statistics to full-time students with financial need.

students (10.3%) and students of more than one race (10.1%) are less likely to borrow private instead of federal.

- Students whose parents are divorced or separated (15.8%) are more likely to borrow private instead of federal. They represent 26.1% of the students who borrow private instead of federal.
- Dependent students from families where three or more children are in college (19.9%) are more likely to borrow private instead of federal. But they represent only 4.4% of the students who borrow private instead of federal.
- Students who are not enrolled in the fall (19.2%) or enrolled part-time (19.8%) are more likely to borrow private instead of federal than students who are enrolled full-time (10.8%). They represent 21.6%, 21.9% and 56.5%, respectively, of students who borrow private instead of federal.
- Students enrolled at Puerto Rican colleges (55.6%) are much more likely to borrow private instead of federal, and represent 5.9% of students who borrow private instead of federal.
- Students whose total income (parents and independent) is zero (17.9%) or non-zero and less than $25,000 (15.6%) are more likely to borrow private instead of federal and represent 3.4% and 35.3%, respectively, of students who borrow private instead of federal.
- Students whose total income (parents and independent) is less than or equal to $50,000 (14.8%) are more likely to borrow private instead of federal as compared with students with total income over $50,000 (11.6%), and account for roughly two-thirds (63.5%) of students who borrow private instead of federal.
- Students whose out-of-pocket cost (net price after grants) represents less than 10% of income (48.0%) or 11% to 20% of income (16.2%) are more likely to borrow private instead of federal, and represent 17.8% and 20.9%, respectively, of students who borrow private instead of federal. This includes students with low out-of-pocket costs or high income.
- 5th year undergraduate students were more likely in 2003-04 (25.6%) to borrow private instead of federal but less likely in 2007-08 (9.3%). The 2007-08 data would appear to be inconsistent with a widely held belief that 5th year undergraduate students are more likely to borrow private instead of federal loans because they are more likely to have exhausted federal student loan limits. However, aggregate undergraduate Stafford loan limits exceed the sum of four years of annual loan limits, leaving some borrowing capacity available for a fifth year. So while 5th year undergraduate students are more likely to reach the aggregate Stafford loan limits and are more likely to borrow private student loans, they can still borrow some Stafford loans during their fifth year and so are able to borrow private student loans in *addition to* federal student loans as opposed to *instead of* federal student loans.

The following additional characteristics are based on 2003-04 NPSAS data, since the relevant variables are not yet available in the 2007-08 NPSAS. These percentages of students borrowing private instead of federal should be compared with the 12.0% overall rate for federal aid applicants in the 2003-04 NPSAS data set.

- Students for whom English is not the primary language (18.6%) are more likely to borrow private instead of federal, and represent 16.2% of students who borrow private instead of federal.
- Students with no help from their parents (13.1%) are more likely to borrow private instead of federal, and represent 53.5% of students who borrow private instead of federal.
- Students with a GPA under 2.0 (20.5%) are more likely to borrow private instead of federal and students with a GPA of 2.0 or higher (11.2%) are less likely, and the low GPA students represent 14.3% of students who borrow private instead of federal. Among upperclassmen at 4-year institutions, 22.4% of those with a GPA under 2.0 borrow private student loans instead of federal, compared with 9.7% of upperclassmen with higher GPAs, and represent 9.9% of upperclassmen who borrow private student loans.[15]

PRIVATE VERSUS PLUS LOANS

This report did not evaluate the reasons why private student loan borrowers do not borrow from the PLUS loan program because recent changes in the PLUS loan program may have a significant impact on borrowing patterns. Graduate and professional students have been able to borrow from the Grad PLUS loan program starting on July 1, 2006, so Grad PLUS loan data is available only in the 2007-08 NPSAS. In addition, the Ensuring Continued Access to Student Loans Act of 2008 modified the Parent PLUS loan program, allowing parents to defer repayment while the student is in school and for six months after graduation. This addressed one of the primary reasons parents prefer private student loans over the PLUS loan program. The credit crisis may also have affected the PLUS loan denial rate, since PLUS loan borrowers must not have an adverse credit history.[16]

Other possible reasons why families might prefer private student loans over the PLUS loan program, beyond the reasons discussed for the Stafford loan program, include:

- Students are obligated to repay private student loans but are not obligated to repay Parent PLUS loans, since the Parent PLUS loan is strictly a parental obligation. While parents are often required to cosign private student loans, they do not perceive cosigning a loan the same as being the primary borrower even though they are equally obligated to repay the debt. Many private student loans also offer a cosigner release option after 24, 36 or 48 months of consecutive on-time monthly payments.
- Some parents are unwilling to borrow to pay for their children's college education. In some cases these students are able to qualify for a private student loan without a cosigner.
- Stepparents who are no longer married to the student's biological or adoptive parent (and who didn't themselves adopt the student) are not eligible to borrow from the Parent PLUS loan program but may be able to cosign a private student loan. This often occurs

[15] Students with a GPA under 2.0 at the end of the sophomore year are not making satisfactory academic progress and are ineligible for federal student aid. However, the loss of eligibility occurs during the following semester and not during the same school year. NPSAS data does not include a variable for GPA during the previous academic year. Also, there is an appeals process for a failure to make satisfactory academic progress and it is possible to regain eligibility in the middle of an academic year.

[16] Parent PLUS loan volume in FY2008 was down 15.6% compared with FY2007, compared with a 26.9% increase for Grad PLUS loan volume. The number of Parent PLUS loan borrowers was also down 15.6%, compared with a 22.2% increase in the number of Grad PLUS loan borrowers.

when the custodial parent dies but the student is still living with and supported by the stepparent.

- Some grandparents, aunts and uncles or other relatives may be willing to borrow on behalf of the student but are ineligible to borrow through the PLUS loan program. These relatives are often able to cosign a private student loan.
- For cosigners with excellent credit scores (e.g., a FICO score in the 800s), current variable rates on private student loans may be superior to the fixed rates on the PLUS loan. Some borrowers may be intending to pay off the private student loan in full before interest rates increase. Others may not appreciate that private student loans are likely to be much more expensive than the PLUS loan over the typical 20 or 25 year term of a private student loan.
- Marketing of private student loans often focuses on monthly loan payments and not on total payments over the life of the loan. The marketing also includes comparisons with different loan terms and best interest rates, yielding a misleading picture of the cost of the loan. For example, a 20-year private student loan at 10% interest has a monthly payment of $193, compared with a $248 monthly payment on a 10-year PLUS loan at 8.5% interest. That makes the private student loan seem more affordable than the Parent PLUS loan. However, the borrower will pay $9,757 in interest over the life of the PLUS loan, compared with $26,323 in interest over the life of the private student loan. The pending Truth in Lending Act regulations from the Federal Reserve Board will address this problem, but some lenders may still market their private student loans as comparable to the PLUS loan and exploit loopholes in the new regulations.[17]
- In some cases inaccurate interpretations of the regulations concerning an adverse credit history (e.g., using a five-year lookback for the 90-day delinquency restriction instead of just a current delinquency) may have resulted in a PLUS loan denial for parents who are still able to qualify for a private student loan.[18]
- There may be a perception that all federal student aid, including federal education loans, depends on financial need. Some parents seem to be unaware that the unsubsidized Stafford loan and the PLUS loan are available to moderate and upper income families in addition to low income families.
- Private student loans may be used to pay for previous school charges while federal education loans generally cannot be used to pay for previous school charges.[19]

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[17] For example, the statute mandates disclosure of the interest rates on federal education loans before a private student loan can be consummated. However, borrowers are much more likely to be influenced by comparisons based on the total interest paid and total payments over the life of the loan than by comparisons of interest rates.

[18] The regulations at 34 CFR 682.201(c)(2)(iii) permit lenders to establish "more restrictive credit standards," so such a misinterpretation is nevertheless permitted by the regulations. It is also possible that some lenders may have adopted more stringent credit underwriting criteria for the PLUS loan in order to push these borrowers into more profitable private student loan programs.

[19] Federal student aid may be used to pay for up to $200 in charges from a previous award year per 34 CFR 668.164(d)(2).

The following are some key statistics relating to borrowing of the PLUS loan versus private student loans.[20]

- 95.3% of undergraduate private student loan borrowers did not borrow from the Parent PLUS loan program in 2007-08
- 82.5% of Parent PLUS loan borrowers did not borrow private student loans in 2007-08
- 17.5% of Parent PLUS loan borrowers did borrow private student loans in 2007-08
- 8.3% of dependent undergraduate private student loan borrowers borrowed from the Parent PLUS loan program in 2007-08

- 94.1% of graduate and professional private student loan borrowers did not borrow from the Grad PLUS loan program in 2007-08
- 87.1% of Grad PLUS loan borrowers did not borrow private student loans in 2007-08

- 91.1% of undergraduate private student loan borrowers did not borrow from the Parent PLUS loan program in 2003-04
- 86.3% of Parent PLUS loan borrowers did not borrow private student loans in 2003-04
- 13.7% of Parent PLUS loan borrowers did borrow private student loans in 2007-08

It is particularly surprising that 13.7% of Parent PLUS loan borrowers in 2003-04 and 17.5% in 2007-08 also borrowed from private student loan programs.[21] Given that the PLUS loan has an annual limit up to the full cost of attendance minus other aid received, there technically should be no need to borrow from private student loans if the parent is already using the PLUS loan program. Possible reasons could include the use of direct-to-consumer private student loans to borrow amounts in excess of the cost of attendance, the use of different loan programs by divorced parents, an initial lack of awareness of the availability of the Parent PLUS loan, limits on the amount of debt the parents were willing to assume on a parent-only obligation and parents subsequently borrowing from the Parent PLUS loan program without the student's knowledge or approval.

[20] The term "borrowing PLUS" is shorthand that refers to borrowing of a PLUS loan by the student's parent in the case of a dependent undergraduate student and the student in the case of a graduate or professional student.
[21] Equally surprising is the fact that 7.6% of Parent PLUS loan borrowers did not borrow from the Stafford loan program in 2007-08. The figures were 7.1% among families that did not borrow from private student loan programs and 9.7% among families that did borrow from private student loan programs.