

College students' use of private loans drops by half

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Credit: RTI International

A new report by education researchers at RTI International found that the use of private student loans dropped by half between 2008 and 2012.

Conducted for the National Center for Education Statistics (NCES), the study examines the use of private loans by college students over time and compares it to their use of federal loans. Private loans differ from federal loans because they originate from banks, credit unions or other commercial entities, and are not federally guaranteed. Like other consumer loans, the lenders set the terms and conditions of the loan, usually basing them on the market and the borrower's credit history.

"Generally private loans have stricter terms and harsher penalties for non-payment than federal loans do," said Jennie Woo, Ed.D., lead author and a senior [education](#) researcher at RTI. "Students who are eligible for federal loans are better off getting them instead."

The study found that 5 percent of undergraduates took out private loans in 2004. After peaking in 2008 at 14 percent, the percentage of undergraduate students who took private loans dropped by about half in 2012 to 6 percent. In contrast, the percentage of undergraduates who took out federal loans through the Stafford Loan program rose from 35 percent to 40 percent between 2008 and 2012.

This pattern held for students at all types of schools and for all income levels. The proportion of students who took out private loans was highest at private for-profit schools, where the proportion of private loan borrowers was three times higher in 2008 than in 2012. Similarly, the percentage of graduate students who borrowed private loans also peaked and then declined: from 11 percent in 2008 to 4 percent in 2012.

Several factors probably contributed to this change. As the financial markets seized up and the economy contracted in the financial crisis that started in December 2007, banks tightened lending standards and

increased underwriting requirements. Many banks found student loans no longer profitable and dropped out entirely. The 2005 Higher Education Reconciliation Act, which increased the maximum amount that students could borrow in federal loans, also may have contributed to the change. And finally, removing private banks from the federal loan system may have lessened the confusion between federal and private loans for some borrowers.

"We know that borrowing opens up opportunities for students to attend college or university, and we are glad that [students](#) are seeking loans with better terms," said Erin Dunlop Velez, Ph.D., co-author of the study and an education researcher at RTI.

Data in the report are drawn from three administrations of the National Postsecondary Student Aid Study, which RTI conducts for the National Center for Education Statistics. The report is a follow-up to a 2012 study that drew from the previous administrations of NPSAS. You can view the [report here](#).

Provided by RTI International

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