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ABSTRACT

This study examined the use of private education loans at high-cost private colleges and universities. Responses were received from 100 of the 381 institutions who reported undergraduate tuition and fees, or professional school tuition and fees, of $14,000 or higher in 1996-1997. It was found that on most campuses private student loans play a small but growing role in financing higher education. Ninety percent of the respondents indicated that students received private loans because they had exceeded the annual loan limits allowed under federal student loan programs, and fifty-one percent of the respondents reported that students received the loans because the borrowers' parents were denied access to Federal Parent Loans for Undergraduate Students. It is concluded that many private loan borrowers will probably leave their institutions with very large cumulative student loan debts, and some may have trouble meeting the repayment obligations of both their private and federal student loans. (MDM)

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The Use of Private Student Loans at High-Cost Postsecondary Education Institutions in Academic Year 1997-98

by
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Introduction

According to the College Board's 1999 *Trends in Student Aid* report, approximately $1.6 billion in private postsecondary education loans was provided to students who attended higher education institutions in academic year 1997-98 (College Board, 1999a). With private student loans, many banks and other lenders work in partnership with colleges and universities to provide the loan funds to students. Borrowers use the funds to pay the cost of attending their higher education institutions.

Private student loan programs are very different from the student loan programs authorized by the federal government. The first major difference is the source of capital for the loan programs. While funding for private student loans is provided exclusively by banks and other lending institutions, funds for the major federal student loan programs come from a variety of public and private sources. The two major federal student loan programs are the Perkins and Stafford Loans. The funds for Perkins Loans are provided by annual federal appropriations, by contributions from the postsecondary education institutions that participate in this program, and by the loan repayments from prior Perkins Loan borrowers (Redd, 1999). The capital for Stafford Loans is provided through two programs: the Federal Family Education Loan program, which provides capital through banks and other lenders, and the Federal Direct Student Loan program, which is capitalized directly by the federal government.

The interest rates charged to borrowers of private student loans are set by the lenders, based on market conditions and other factors, such as risks of losses to defaults. The interest rates on the federal student loan programs, however, are set by Congress through the Higher Education Act, the federal statute that authorizes these programs. The interest rate charged to all Perkins Loan borrowers is fixed at 5 percent, while the rate for Stafford Loan recipients is variable, based on the interest rate paid for 91-day Treasury bills (the T-bill rate).

Unlike private student loans, repayment of Stafford and Perkins Loans is guaranteed by the federal government. If Stafford Loan borrowers default on their loans, or die, become permanently and totally disabled, or declare bankruptcy, lenders are reimbursed for the loss of repayment by the federal government. Similarly, postsecondary education institutions that participate in the Perkins Loan program receive annual federal appropriations that reimburse them for the loss of Perkins Loan funds.

Stafford and Perkins Loan recipients also usually have repayment benefits that typically are not offered by private student loans. For example, students who receive Perkins Loans do not have to pay the interest on their loans while they are enrolled in their postsecondary education institutions. Perkins Loan recipients may have a portion of their loans repaid by the federal government for entering certain types of jobs or community services, such as serving in the Peace Corps or working as elementary and secondary school teachers in low-income areas. Students who receive Stafford

Subsidized Loans also are not required to repay the interest on their loans while they are enrolled in the higher education institutions. However, under most private loan programs, borrowers cannot get the loan repayments canceled. Most of these programs also require borrowers to either pay the interest on their loans while they are enrolled in college or to have the interest capitalized (added to the principal balance on the loans until the borrowers leave their educational institutions).

Despite these differences, the private student loans are playing an increasing role in helping students meet their postsecondary education expenses. Since 1995-96, the amount borrowed through the private education loan programs has risen by 56 percent in inflation-adjusted value, while the amount of Stafford Subsidized Loans increased by only 2 percent (College Board, 1999a). However, very little is known about the characteristics of students who receive private student loans or other factors that might account for the increased use of these loans.

To help bridge this knowledge gap, Sallie Mae, Inc., the nation's largest provider of financing for postsecondary education students and their families, conducted the *1998 Survey of Private Student Loans for Postsecondary Education.* The survey was sent to financial aid administrators at colleges and universities that had higher-than-average tuition and fee charges, since these institutions were most likely to have students who would want to receive these private loans (students at lower-cost institutions would very likely be able to meet their educational expenses with funds from federal student loans and financial aid from other sources). The survey asked the aid administrators to provide detailed information on the use of private education loans at their campuses during academic year 1997-98.

This report first describes the survey population and the number of survey respondents. Then the report then provides information on the number of private loan recipients and amounts borrowed, the characteristics of private loan borrowers, the percentages of borrowers who received private loans compared with those who received government loans, the reasons borrowers cited for wanting to receive private loans, and respondents' predictions on future changes in the amount of private student loans at their institutions.

The Survey Population and Respondents

The private loan survey was sent to 381 four-year colleges and universities, based on the tuition and fee charges they reported to the College Board's 1996-97 *Annual Survey of Colleges* (College Board, 1997). Two criteria were used to choose these institutions: (1) they reported undergraduate tuition and fee charges of $14,000 or higher for their full-time, full-year, in-state residents in academic year 1996-97; or (2) they had graduate and professional programs (dental, law, and medical schools) with full-time, full-year resident tuition and fee charges of $14,000 or more in 1996-97. These criteria were not mutually exclusive; some institutions had both undergraduate and graduate/professional schools whose tuition charges met the minimum standards.

Nearly all of the institutions selected for the study were private, non-profit colleges and universities. According to the College Board, about 17 percent of all four-year private colleges and universities had tuition and fee charges of $14,000 or more in 1996-97. During this year, the average undergraduate tuition charge for all four-year private colleges was $13,345 (College Board, 1999b).

Responses were received from 100 of the 381 institutions, for a response rate of 26.2 percent. Eighteen of the respondents were free-standing professional schools (dental, medical, or law schools that did not report undergraduate tuition charges). Table 1 shows the number of respondents and their average tuition charges compared with the total survey population. The average undergraduate tuition and fee charge for the survey respondents, $17,337, was slightly higher than the $16,619 average tuition and fee charge for the total population. However, this difference is not statistically significant. The responding medical, dental, and law schools also had slightly higher tuition prices than the entire survey population of these institutions, but these differences were not significant.

Table 1.
Comparison of Average 1996-97 Tuition and Fee Charges for Full-Time, Full-Year Resident Students from the Private Student Loan Survey Population and Survey Respondents

	Avg. Undergraduate Tuition and Fees	Standard Deviation	Avg. Dental Tuition and Fees	Standard Deviation	Avg. Medical Tuition and Fees	Standard Deviation	Avg. Law Tuition and Fees	Standard Deviation
Survey Population (N)	$16,619 (343)	$3,643	$22,023 (21)	$7,475	$22,843 (53)	$4,469	$18,141 (98)	$3,210
Survey Respondents (n)	$17,337 (82)	$2,706	$25,683 (4)	$7,652	$23,967 (13)	$$3,440	$18,990 (18)	$2,628

Source: College Board, *1996-97 Annual Survey of Colleges*; Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Table 2 shows the distribution of the respondents' undergraduate tuition and fee charges compared with the charges of all the surveyed colleges and universities. The plurality (42 percent) of both the survey respondents and population had tuition and fee prices that ranged from $15,000 to $19,999. The survey respondents had a median undergraduate tuition and fee charge of $16,917, compared with $16,160 for the total population. About 5 percent of the survey population, compared with just 1 percent of the respondents, reported undergraduate tuition charges of less than $10,000. Nineteen percent of the respondents reported tuition and fee charges of $20,000 and higher, while about 18 percent of all the institutions had charges at this level. These results suggest that the tuition and fee charges of the survey respondents are representative of the total population of surveyed colleges and universities.

Table 2.
Comparison of the 1996-97 Full-Time, Full-Year Resident Undergraduate Tuition and Fee Charges for the Private Student Loan Survey Population and Survey Respondents

1996-97 Tuition and Fee Level	Survey Population	Percentage of Total	Survey Respondents	Percentage of Total
Missing	38	10.0%	18	18.0%
Less than $5,000	3	0.8	0	0.0
$5,000 to $9,999	14	3.7	1	1.0
$10,000 to $14,999	98	25.7	20	20.0
$15,000 to $19,999	160	42.0	42	42.0
$20,000 to $24,999	64	16.8	19	19.0
$25,000 & Over	4	1.0	0	0.0
Total	**381**	**100.0%**	**100**	**100.0%**
Median Tuition and Fee Charge	**$16,160**		**$16,917**	

Source: College Board, *1996-97 Annual Survey of Colleges*; Sallie Mae, Inc., *1998 Survey of Private Loans for Postsecondary Education.*

The Number of Private Student Loan Recipients and Amounts Borrowed

Most of the survey respondents reported that their numbers of students who received private education loans in academic year 1997-98 were very small. Collectively, only 13,429 students, representing just 3 percent of the 432,413 students enrolled at these colleges and universities in the fall of 1997, received private loans during the study period (U.S. Department of Education, 1999). The plurality of the institutions, 38 percent, reported that fewer than 50 students received private loans (see Table 3). Only 7 percent had more than 500 loan recipients. The average number of loan recipients at the campuses was 141, but the median was just 60.

Collectively, the respondents reported that their students received about $105 million in private education loans in 1997-98 (see Table 4). The average amount borrowed at the institutions was about $1.1 million, but the median was only $482,000. There was a wide variance in the amount of loans reported by each institution. At 37 percent of the institutions, the total amount of private loans was less than $250,000, but 12 percent of the respondents said that their students received $3 million or more. The total amount of private student loans ranged from $10,000 to $5.6 million. The standard deviation of the total amount borrowed was $1.4 million.

Table 3.
Frequency Distribution of the Number of Private Student Loan Recipients in Academic Year 1997-98

Number of Borrowers	Percentage of Respondents
Missing	6.0%
1 to 49	38.0
50 to 99	14.0
100 to 199	15.0
200 to 299	10.0
300 to 399	7.0
400 to 499	3.0
500 & Over	7.0
Total	**100.0%**

Number of Respondents:	100
Total Number of Borrowers:	13,429
Average Per Respondent:	141
Standard Deviation:	166
Median:	60
Lowest Respondent:	2
Highest Respondent:	835

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Table 4.
Frequency Distribution of the Total Amounts of Private Loans in Academic Year 1997-98

Amount Borrowed	Percentage of Respondents
Missing	4.0%
Less than $250,000	37.0
$250,000 to $499,999	12.0
$500,000 to $999,999	14.0
$1,000,000 to $1,999,999	14.0
$2,000,000 to $2,999,999	7.0
$3,000,000 & Over	12.0
Total	**100.0%**

Number of Respondents:	100
Total Amount Borrowed:	$104.7 million
Average Per Respondent:	$1.1 million
Standard Deviation:	$1.4 million
Median:	$482,500
Lowest Respondent:	$10,000
Highest Respondent:	$5.6 million

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

The Characteristics of the Private Student Loan Recipients

Undergraduates were the overwhelming majority of private student loan recipients at many of the responding institutions. As Table 5 shows, 46 percent of the colleges and universities reported that undergraduates accounted for at least 95 percent of their private student loan borrowers in 1997-98. However, at 6 percent of the institutions, professional students accounted for 95 percent or more of the private loan borrowers. Most of these institutions were medical, dental, and law schools.

The private loan recipients were also very likely to be financially dependent and to be unmarried. Table 6 shows that 45 percent of the respondents reported that 75 percent or more of their borrowers were financially dependent (their parents were expected to pay at least a portion of their costs of attending college). Just 26 percent of the respondents said that at least 75 percent of their borrowers were financially independent. Further, 44 percent of the respondents reported that 95 percent or more of their private student loan borrowers were unmarried, but only 4 percent said that 75 percent or more of their recipients were married.

Table 5.
Academic Grade Levels of
Private Loan Borrowers
in Academic Year 1997-98

Percentage of Borrowers Who Were Undergraduates	Percentage of Respondents
Missing	21.0%
Less than 65%	22.0
65% to 74%	0.0
75% to 84%	4.0
85% to 94%	7.0
95% & Over	46.0%
Total	**100.0%**

Percentage of Borrowers Who Were Graduate Students	Percentage of Respondents
Missing	60.0%
Less than 5%	8.0
5% to 9%	6.0
10% to 14%	8.0
15% to 19%	0.0
20% to 24%	2.0
25% & Over	16.0%
Total	**100.0%**

Percentage of Borrowers Who Were Professional Students	Percentage of Respondents
Missing	76.0%
Less than 65%	15.0
65% to 74%	1.0
75% to 84%	1.0
85% to 94%	1.0
95% & Over	6.0
Total	**100.0%**

Source: Sallie Mae, Inc. *1998 Survey of Private Student Loans for Postsecondary Education.*

Table 6.
Financial Dependency Status and Marital Status of Private Loan Recipients in Academic Year 1997-98

Percentage of Borrowers Who Were Dependent	Percentage of Respondents
Missing	26.0%
Less than 65%	28.0
65% to 74%	1.0
75% to 84%	7.0
85% to 94%	9.0
95% & Over	29.0%
Total	**100.0%**

Percentage of Borrowers Who Were Independent	Percentage of Respondents
Missing	60.0%
Less than 25%	31.0
25% to 49%	8.0
50% to 74%	7.0
75% & Over	26.0%
Total	**100.0%**

Percentage of Borrowers Who Were Married	Percentage of Respondents
Missing/None	47.0%
Less than 25%	37.0
25% to 49%	7.0
50% to 74%	5.0
75% & Over	4.0
Total	**100.0%**

Percentage of Borrowers Who Were Unmarried	Percentage of Respondents
Missing/None	20.0%
Less than 65%	13.0
65% to 74%	4.0
75% to 84%	6.0
85% to 94%	13.0
95% & Over	44.0
Total	**100.0%**

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Use of Private Student Loans Compared with Government Student Loans

Most student loan recipients received their loan dollars entirely from government-sponsored students loan programs. Table 7 shows that 30 percent of the survey respondents reported that 95 percent or more of *all* the student loan recipients at their institutions in 1997-98 had received government-sponsored student loans exclusively. Collectively, 83 percent of the respondents said that at least 65 percent of their student loan recipients had received government loans exclusively. Only 4 percent reported that 15 percent or more of their borrowers had received private loans exclusively.

However, a number of institutions reported that they awarded both private and government student loans to borrowers during the academic year. Twenty-seven percent of the survey respondents said that 15 percent or more of their borrowers received both government and private student loans in 1997-98. Some of these borrowers may have been attending professional schools, since these institutions charge higher tuition and fee amounts and often have other costs that would exceed the maximum amounts available under the government-guaranteed loan programs. Others may have been undergraduate students who attended colleges and universities with exceptionally high costs.

These results suggest that, at most campuses, private student loans are awarded to supplement the aid that students receive from other sources, particularly from the government-sponsored loan programs. That is, the private loans are usually included as part of a financial aid package, or a combination of different types of aid that financial aid administrators design for students to meet the students' total cost of attending college. The survey results also suggest that many private student loan recipients, because they also receive government loans in the same academic year, are very likely to leave their higher education institutions with very large cumulative student loan debts.

Table 7.
Percentage of Student Loan Borrowers Who Received Government Loans Only, Private Loans Only, and Both Private and Government Loans in Academic Year 1997-98

Percentage of Borrowers With Government Loan Only	Percentage of Respondents
Missing/None	10.0%
Less than 65%	7.0
65% to 74%	13.0
75% to 84%	15.0
85% to 94%	25.0
95% & Over	30.0%
Total	**100.0%**

Percentage of Borrowers With Private Loans Only	Percentage of Respondents
Missing/None	32.0%
Less than 5%	50.0
5% to 9%	4.0
10% to 14%	10.0
15% & Over	4.0%
Total	**100.0%**

Percentage of Borrowers With Gov't & Private Loans	Percentage of Respondents
Missing/None	13.0%
Less than 5%	30.0
5% to 9%	16.0
10% to 14%	14.0
15% & Over	27.0
Total	**100.0%**

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Borrowers' Reasons for Receiving Private Student Loans

It appears that most borrowers received private loans because their postsecondary education costs were greater than the amounts they could receive from federal loans and other sources. Seventy-three percent of the survey respondents said that the most common reason cited by borrowers on their campuses for wanting to get private loan in 1997-98 was that the borrowers had exceeded the annual borrowing limits allowed under the federal student loan programs (see Table 8).

This high percentage might have occurred because the tuition and fee charges at several of the institutions were greater than the maximum annual amount of Stafford and Perkins Loans that students are able to receive. For example, the $10,500 maximum amount that a financially independent undergraduate may receive under the Stafford Subsidized and Unsubsidized Loan programs is nearly $7,000 less than the average undergraduate tuition and fee charge at the responding institutions.

The second most common reason cited by borrowers for receiving private student loans was that the borrowers' parents were ineligible for Federal Parent Loans for Undergraduate Students (PLUS), and the students wanted the private loans to replace the lost PLUS funds. This reason was cited by 51 percent of the respondents; 37 percent said that this was the second most common reason that they heard on their campus. Borrowers who cite this reason are financially dependent students, since the parents of independent students usually would not be expected to apply for PLUS loans.

Table 8.
Reasons Borrowers Cite for Wanting to Receive Private Student Loans in 1997-98

Reason to Receive Loans	Most Common Reason	Second Most Common	Third Most Common	Total Respondents
Borrowers *Never* Eligible for Federal Loans	3.0%	7.0%	7.0%	17.0%
Borrowers Exceed *Annual* Limits on Federal Loans	73.0	13.0	4.0	90.0
Borrowers Exceed *Cumulative* Limits on Federal Loans	0.0	7.0	6.0	13.0
Borrowers Ineligible for Federal Loans Due to Defaults	0.0	1.0	0.0	1.0
Borrowers Ineligible for Federal Loans Because They Are Not U.S. Citizens	1.0	4.0	6.0	11.0
Borrowers' Parents are Ineligible for PLUS Loans So Students Use Private Loans to Pay Costs	8.0	37.0	6.0	51.0
Borrowers Ineligible for Federal Loans Due to Part-Time Enrollment Status	1.0	2.0	8.0	11.0
Some Other Reason	13.0	13.0	8.0	34.0

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Predictions on the Future Volume of Private Student Loans

The private loan survey also asked respondents to predict whether the amount of private loans on their campuses would increase, decrease, or stay the same over the next year (from 1997-98 to 1998-99). The plurality of respondents, 36 percent, expected the amount of private student loans at their institutions to increase by less than 5 percent, while 32 percent expected volume to grow from 6 percent to 10 percent, and 6 percent predicted that volume would raise by more than 15 percent. Just 3 percent of respondents believed that private student loan volume would fall.

Table 9.
Predicted Changes in
Private Student Loan Volume from
Academic Year 1997-98 to 1998-99

Predicted Change in Private Loan Volume	Percentage of Respondents
Fall by More Than 10%	0.0%
Fall by 6% to 10%	1.0
Fall by Less Than 5%	2.0
Increase by Less Than 5%	36.0
Increase by 5% to 10%	32.0
Increase by 11% to 15%	7.0
Increase by More than 15%	6.0
Unable to Predict	15.0
Missing/No Response	1.0
Total	**100.0%**

Source: Sallie Mae, Inc., *1998 Survey of Private Student Loans for Postsecondary Education.*

Summary

The results of the Sallie Mae *1998 Survey of Private Student Loans for Postsecondary Education* show that, at most campuses, private student loans play a small but growing role in financing higher education. However, the number of private loan borrowers remains small when in comparison to the government-sponsored student loan programs.

At more than two-thirds of the responding institutions, fewer than 200 students received private loans in 1997-98, and the total amount borrowed was less than $1,000,000. The institutions also reported that most of their student loan borrowers had received government loans exclusively. Most borrowers who received private loans also received federal student loans. This indicates that the private loans were used primarily to supplement the aid that students receive from the government loans and other sources.

The survey results also strongly suggest that the number of students who use private student loans to pay for postsecondary education will grow in the near future. Forty-five percent of the survey respondents expected the amounts of private loans on their campuses to grow over the next year. Further, 90 percent of the respondents said that students received private loans because they had exceeded the annual loan limits allowed under the federal student loan programs, and 51 percent said that students received the loans because the borrowers' parents were denied access to PLUS loans. As tuition and fee charges continue to rise, these factors may influence more students who attend high-cost colleges and universities to borrow both federal and private loans to pay their educational expenses.

Because of this, many private loan borrowers will probably leave their institutions with very large cumulative student loan debts, and some may have trouble meeting the repayment obligations of both their private and federal student loans. Thus, financial aid administrators should make sure they provide accurate information on alternative sources of aid so that students who receive private student loans are not borrowing any more than they absolutely need to finance their postsecondary education programs. This is particularly true of undergraduate students, who normally have access to a greater number of grant and work-study programs than students in graduate and professional programs. Aid administrators should also make sure they choose private loan lenders who charge the lowest interest rates and provide the most flexible repayment terms available, so that the debt burdens for these borrowers are as easy as possible.

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