

Students Relying More Heavily on Private Lenders

Private Lending

Private student loans now total \$17.3 billion, having grown at an average annual rate of about 27 percent in inflation-adjusted dollars since 2000-01. The proportion of student loans borrowed through banks and other private lenders, as opposed to the federal government, climbed to 20 percent of all education borrowing in 2005-06. Private loans constituted only 12 percent of all borrowing five years earlier, and 4 percent in 1995-96. Unlike federal loans, private loans are not guaranteed by the government or subsidized in any way. They frequently carry higher interest rates than federal loans, especially for students without strong credit ratings. Private loans fill important gaps in students' ability to finance college, but they are not part of the student financial aid system.

Federal Loans

Undergraduate students borrowed almost \$19.9 billion through the federal subsidized Stafford Loan program and another \$16.6 billion through the unsubsidized Stafford Loan program. The proportion of undergraduate loan dollars borrowed through the subsidized program, under which the federal government pays the interest while the student is in school, declined from 69 percent to 55 percent over the decade from 1995-96 to 2005-06.

The dollar values of both subsidized and unsubsidized Stafford Loans for undergraduates have failed to keep pace with inflation over the decade. This decline, combined with rapid increases in the cost of attending college, helps to explain the increased reliance on private education loans.

Average Student Debt at Graduation

Median student debt among 2003-04 bachelor's degree recipients who borrowed to finance their education was \$19,300. Median debt levels increased sharply between 1995-96 graduates and those who received their degrees in 1999-2000, but 2003-04 graduates were no more deeply in debt than those who had graduated four years earlier. Although precise data are not yet available, it is almost certain that debt levels have increased since 2003-04, because neither family incomes nor grant aid has kept pace with increases in college charges.

Student borrowers graduating in 2004 from for-profit colleges had the highest median debt of \$24,600, followed by private nonprofit college graduates at \$19,500, and public four-year college graduates at \$15,500.

Despite median debt levels of under \$20,000, 23 percent of borrowers from private nonprofit colleges and 14 percent of those at public four-year colleges graduated with \$30,000 of debt or more. Forty percent of those who graduated from four-year programs at for-profit institutions had this much debt. On the other hand, 38 percent of bachelor's degree recipients from four-year public colleges did not borrow at all and another 30 percent had less than \$10,000 in debt when they graduated.

