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As Student Debt Rises, More Undergraduates Go Straight to Most Dangerous Loans

New Analyses Find Disturbing Trends and Inadequate Disclosure Rules

Berkeley, CA – In 2007-08, nearly two-thirds (64 percent) of undergraduate students who borrowed private student loans did not take out all they could in safer, more affordable federal loans, according to an [analysis](#) released today by the Project on Student Debt. In addition, the proportion of all undergraduates who took out private loans increased dramatically – from five percent in 2003-04 to 14 percent in 2007-08.

“Private student loans are one of the riskiest ways to pay for college,” said Lauren Asher, president of the Institute for College Access & Success, home of the Project on Student Debt. “Both the federal government and colleges should do more to prevent students from taking out unnecessary private loans.”

Like credit cards, private loans usually have variable interest rates that are higher for those least able afford them – as high as 18 percent in 2008. But unlike credit card debt, private loans are nearly impossible to discharge in bankruptcy. They also lack important consumer protections that come with federal student loans. Private loan borrowing has slowed since the credit crunch, but these risky loans remain available from major lenders.

Among the Project’s findings:

- While experts agree that private loans should be used only as a last resort, the share of private loan borrowers *who could have borrowed more in federal Stafford loans* increased dramatically, from 48 percent in 2003-04 to 64 percent in 2007-08.
- Private loan borrowing is not limited to students at high-priced schools. In fact, the majority of private loan borrowers (63 percent) attend colleges with tuition and fees of less than \$10,000.
- Among all racial and ethnic groups, African Americans are now the most likely to borrow private student loans. The percentage of African-American undergraduates who took out private loans quadrupled between 2003-04 and 2007-08, from four percent to 17 percent.

New Disclosures Inadequate

“Without stronger consumer protections, students will continue to be vulnerable to aggressive private loan marketing tactics and inadequate information about their borrowing options,” said Asher. The Federal Reserve Board recently finalized regulations for new consumer disclosures

for private student loans, as required by Congress last year. However, the [Project's analysis of the new rules](#) reveals the Board did not go far enough to warn consumers about private loans and make them aware of other options.

“We are very disappointed by the Federal Reserve Board’s decisions. The disclosures will not have the effect that many in Congress had hoped,” said Asher. “These weak regulations underscore the need for mandatory school certification of private loans so schools can intervene when a student has better financing options, and for a consumer financial protection agency that would more effectively protect students and families from dangerous private student loans.”

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For more information, see three new resources from the Project on Student Debt:

[Private Loans: Facts and Trends](#)

[Quick Facts about Student Debt](#)

[Summary of Federal Reserve Board Regulations on Private Loan Disclosures](#)

The Project on Student Debt is an initiative of the Institute for College Access & Success, an independent, nonprofit organization working to make higher education more available and affordable for people of all backgrounds. For more information see www.projectonstudentdebt.org and www.ticas.org.