



New Report Shows Students Are Choosing Pricey Private Loans over Federal Loans

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Report indicates that borrowers are not exhausting all of their federal options before turning to private loans.

PR9.NET August 27, 2007 - Washington, DC - A report released by the American Council on Education this week revealed that one out of five student loan borrowers did not take full advantage of his or her federal loan options prior to borrowing private student loans.

In light of recent scandals involving private student lenders, the report, entitled "Who Borrows Private Loans," gives officials insight as to which students are drawn to private loans and why.

According to the report, in the last 10 years, private student loans, also known as alternative loans, have grown more than 900%, making them "the fastest-growing component of financial aid." In fact, during the 2005-2006 school year, students borrowed \$17.3 billion in private student loans.

Since private loans are not guaranteed by the federal government, they do not offer as many money-saving benefits, such as subsidized interest and in-school deferment; therefore, in many cases, they can cost more over time than their federal counterparts. According to the report, more than 75% of private loan borrowers have federal loans as well, but many of them did not exhaust all their federal options prior to borrowing private loans.

According to Higher Education Washington, Inc.'s NewsLine, Jacqueline E. King, director of the American Council on Education, said in a statement, "Since financial aid experts agree that private loans should be used as a supplement to federal loans, it is alarming to find that so many student borrowers aren't taking advantage of the less-expensive federal option."

The report speculates that some of the reasons students opt out of all of their federal options include misconceptions about eligibility criteria for federal loans and the easier application process for private loans. King told the NewsLine that about half of private student loan borrowers who did not have any federal loans did not even fill out the Free Application for Federal Student Aid, also known as the FAFSA. Currently, the FAFSA includes more than 100 questions, which may be overwhelming to some potential borrowers. Private student loan applications are usually less lengthy and complex.

Additionally, the report indicated that some borrowers may not have understood the differences between federal loans and private alternative loans, or they may not have been able to find a way to compare the benefits of the two options.

The report also included the following information:

- 80% of private student loan borrowers are undergraduates. Most are full-time students.
- On average, undergraduate private loan borrowers are about three years younger (23.5 years) than undergraduates without private loans (whose average age is 26.6 years).
- Most private loan borrowers are dependent students from middle-class families.

"No one wants to be stuck with outrageous amounts of student loan debt to repay," said EdFed loan specialist Jennifer Munson. "That's why at EdFed we are so eager to help students save thousands over the life of their loans by consolidating both their federal and private student loans."

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About edfed

As a leader in the student loan industry, EdFed is dedicated to helping students and graduates realize all of their educational goals and meet their student loan and consolidation needs.

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