

**THE DEMAND SIDE OF STUDENT LOANS:  
The Changing Face of Borrowers**

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**ABSTRACT**

Today, loans play a critical role in helping students cover the costs of higher education. To provide a better understanding of the demand side of student loans, this chapter examines the general landscape of student loans, including how much and from what sources students borrow, what types of students are the most avid borrowers, and changes in the rate and nature of borrowing in recent years. The chapter concludes with a discussion of cumulative debt and the resulting debt burden, which is becoming an ever greater concern for students and families as well as policymakers.

Today, loans play a critical and growing role in helping students pay for higher education. Even after grants and scholarships, most families struggle to meet the costs of tuition, fees, and room and board, which in 2006–7 averaged \$12,796 for one year at a public four-year university and \$30,367 at a private four-year university.<sup>1</sup> Without access to student loans, many students would not have the means to attend. This chapter examines how students use loans to meet their college expenses and provides a detailed picture of the “demand side” of the student loan industry.

Despite the critical role loans play in providing access as well as choice to millions, the growing debt burden shouldered by students and their families is becoming a major concern. According to the College Board, in 2003–4 a student borrowing to finance a four-year degree at a public college or university graduated with a median cumulative debt of \$15,500; for students receiving four-year degrees from private institutions, the amount was \$19,400. Students earning two-year degrees from for-profit institutions faced similar loan burdens, with a median cumulative debt of \$16,100.<sup>2</sup>

Unlike grants and scholarships, loans can influence students’ decisions long after they are first received, and many fear their impact may be negative. Researchers suggest that debt burden may significantly affect choices of field of study, and, more narrowly, that loans may deter students from entering public service careers, such as teaching.<sup>3</sup> Another concern is the possibility that high debt might encourage students to delay such decisions as buying a house, getting married, and having children.

On the other hand, there are reasons to wonder whether students have access to *enough* student loans in the face of growing college prices.<sup>4</sup> Some point to the growing popularity of private loans as evidence that the government is not offering enough loan support to students.<sup>5</sup> Others still worry that increasing the amount of federal loans students can receive will only serve to increase further their debt burden and its negative consequences.<sup>6</sup> As a result of these competing voices, the loan limits for federal loans are a constant subject of debate. Recently, the annual limits were slightly increased under the Deficit Reduction Act of 2005 as part of the Higher Education Reconciliation Act (HERA). However, the debate continues, and this chapter will elaborate on the various arguments.

While much attention focuses on the recent growth of private or alternative loans, the federal government remains the primary investor in student loans. As shown in figure 3-1, the government in 2004–5 invested \$62.6 billion dollars in loan programs—nearly three and a half times more than it gave in grant aid that year. In comparison, nonfederal sources, such as the private market and state and institutional loan programs, loaned \$13.8 billion, representing 18 percent of the total in 2004–5, compared to only 6 percent in 1996–97.<sup>7</sup>

The funding of postsecondary education with borrowed money has become especially prevalent during the last fifteen years, as shown in figure 3-2. While a larger percentage of students still receive grant aid, the growth in the use of loans has been significant, especially for full-time, full-year students. In 1989–90, 36 percent of these students took out loans; but by 2003–4, this proportion had increased to 50 percent. Moreover, the average loan amount has also increased rapidly in recent years. As shown in figure 3-3, full-time, full-year undergraduate students took out an average loan of \$4,486 (in constant 2003

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<sup>1</sup> Sandy Baum and Kathleen Payea, *Trends in College Pricing: 2006* (Washington, DC: The College Board, 2006) 5.

<sup>2</sup> Sandy Baum and Kathleen Payea, *Trends in Student Aid: 2005* (Washington, DC: The College Board, 2005).

<sup>3</sup> Luke Swarthout, *Paying Back, Not Giving Back. Student Debt’s Negative Impact on Public Service Career Opportunities* (Los Angeles: State Public Interest Group Higher Education Project, 2006).

<sup>4</sup> Stephen Burd, “How Much is Too Much?” *Chronicle of Higher Education*, January 24, 2003, A18–19.

<sup>5</sup> Catherine Wegmann, Alisa Cunningham, and Jamie Merisotis, *Private Loans and Choice in Financing Higher Education* (Washington, D.C.: Institute for Higher Education Policy, 2003).

<sup>6</sup> Burd, “How Much is Too Much?”

<sup>7</sup> Baum and Payea, *Trends in Student Aid: 2005*.

dollars) in 1989–90. This had grown to an average amount of \$6,200 in 2003–4—an increase of 38 percent in constant 2003 dollars.<sup>8</sup>

### **College Loan Programs: The Supply Side**

The precursors to many of today’s federal financial aid programs were established as part of the Higher Education Act (HEA) of 1965, including Educational Opportunity Grants and the Guaranteed Student Loan Program, later renamed the Federal Family Education Loan Program (FFELP). While federal loan programs originally targeted low-income students, funding, regulations, and eligibility requirements have changed over the past thirty years along with political leadership and sentiment. These changes have often had serious implications for funding and focus in terms of intended recipients.<sup>9</sup>

#### **The Evolution of Federal Student Loan Programs.**

In 1992, the HEA reauthorization changed the eligibility requirements for federal student loans, expanding the use of such resources exponentially. The new policy removed home equity from the financial aid formula, thereby allowing many more upper-income families to qualify. More importantly, the act expanded the Stafford Loan program by creating unsubsidized loans available to any student regardless of family income. From 1993 to 2003, annual loan volume for the Stafford unsubsidized loan program grew to \$10.4 billion.<sup>10</sup> Much of this growth has been attributed to newly eligible upper-income borrowers. By 1995–96, three years after the change, two-thirds of borrowers in the highest income quartile had unsubsidized Stafford loans, compared to 13 percent in the lowest.<sup>11</sup>

#### **Current Federal Student Loan Programs.**

Today, the federal government has three main loan programs for students and their families: the Stafford, Perkins, and PLUS programs.<sup>12</sup> The Stafford Loan Program is the preeminent lender to both undergraduate and graduate students, providing 70 percent of total loans in terms of dollar volume in 2004–5.<sup>13</sup> Stafford loans are awarded in two forms. Subsidized loans, awarded on the basis of financial need and income, do not accrue interest while students are in school. Unsubsidized loans, which are not awarded on the basis of need, accrue interest from the time they are disbursed until they are paid in full. The Perkins Loan Program is campus-based, which means that postsecondary institutions distribute the federal money among their students based on financial need. Finally, the Parent Loans for Undergraduate Students (PLUS) Program is available to the parents of dependent, traditional-age college students, and, since 2006, to graduate students.

Students apply for financial aid by filling out the Free Application for Federal Student Aid (FAFSA). It collects information on family income and assets as well as family composition, the number attending college, and the age of the head of household. Using this information, the government determines a student’s Expected Family Contribution (EFC)—the amount the household is estimated to

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<sup>8</sup> These loan amounts reflect all sources, excluding amounts parents borrowed under the PLUS program.

<sup>9</sup> See chapters 1 and 2 for further information on the history of federal loan programs.

<sup>10</sup> Jacqueline King, *Status Report on the Federal Education Loan Programs* (Washington, D.C.: American Council on Education Center for Policy Analysis, 2003).

<sup>11</sup> Lutz Berkner, *Trends in Undergraduate Borrowing: Federal Student Loans in 1989–90, 1992–93 and 1995–96* (Washington, D.C.: U.S. Dept. of Education National Center for Education Statistics, 2000).

<sup>12</sup> The characteristics of these programs are outlined in table 1 in the introduction.

<sup>13</sup> Baum and Payea, *Trends in Student Aid: 2005*.

be able to give toward the costs of the student's college education. The treatment of income and assets in the EFC calculation differs slightly by dependency status. Dependent students tend to be traditional-age college students who rely on their parents for support. Independent students, by contrast, tend to be older (at least age twenty-four), or they qualify as independent because they are married, have dependents of their own, or have served in the Armed Forces. Because these two types of students come from very different circumstances, the financial aid calculation tends to be more generous toward independent students.

Need is determined by comparing the EFC to the total cost of attendance at the college the student attends. This includes tuition, fees, room and board, and other costs, and it is prorated based on enrollment intensity (that is, whether the student is full- or part-time).<sup>14</sup> It is this calculated need amount along with a family's EFC that affects whether the student is eligible for certain grants and loans. Students who have a low EFC *and* financial need will be eligible for a subsidized Stafford loan as well as perhaps a Perkins loan. Families with higher EFCs will instead be eligible for an unsubsidized Stafford loan. Students may take out a combination of both subsidized and unsubsidized federal loans up to the federally established limits.

As shown in table 3-1, subsidized Stafford loans provided \$18.8 billion in aid in 2004–5, with individual loans averaging \$3,070. The unsubsidized program provided \$14.8 billion, with an average loan amount of \$3,346.<sup>15</sup> In total, the federal government gave 36 percent of its loans as subsidized and 34 percent as unsubsidized Stafford loans during the 2004–5 school year.<sup>16</sup>

Until recently, interest rates for Stafford loans were variable, adjusted yearly with a cap of 8.25 percent. The HERA passed at the end of 2005 as part of George W. Bush administration's Deficit Reduction Act instituted a fixed interest rate of 6.8 percent, effective July 1, 2006. The 2005 HERA also changed annual loan limits in the Stafford Program for undergraduate and graduate students. Beginning July 1, 2007, undergraduates dependent on their parents are eligible to borrow up to \$3,500 in Stafford loans their freshman year, up 33 percent from the current limit of \$2,625. The annual limit for sophomores will increase as well, from \$3,500 to \$4,500. The maximum Stafford loan in any remaining year will be \$5,500. Independent undergraduate students may borrow an additional \$4,000 in unsubsidized Stafford loans their first two years and \$5,000 the remaining years.<sup>17</sup>

Borrowers face cumulative as well as annual limits in the Stafford program. Dependent undergraduates are limited to \$23,000 in loans from the program. Independent undergraduate students and students whose parents have been denied a PLUS loan due to adverse credit history face a cumulative limit of \$46,000 for undergraduate education and a Stafford limit of \$138,500 for combined undergraduate and graduate education.<sup>18</sup>

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<sup>14</sup> One implication of determining need in this way is that two identical students will have differing levels of need depending on which college each elects to attend. A student attending a \$40,000-a-year private four-year institution would qualify for more need-based financial aid than one attending a \$10,000-a-year public four-year, despite equal family situations.

<sup>15</sup> Baum and Payea, *Trends in Student Aid: 2005*.

<sup>16</sup> Association of American Universities, "Federal Student Financial Aid: Background and Talking Points," April 27, 2006, [http://www.aau.edu/budget/Student\\_Aid\\_FY07\\_TPs.pdf](http://www.aau.edu/budget/Student_Aid_FY07_TPs.pdf) (accessed January 18, 2007); American Student Loan Providers, *2006 Student Loan Fact Book: Part I*, [http://www.cbanet.org/issues/student\\_lending/documents/ASLP%20Fact%20Book%202006%20final1.pdf](http://www.cbanet.org/issues/student_lending/documents/ASLP%20Fact%20Book%202006%20final1.pdf) (accessed January 18, 2007), 3.

<sup>17</sup> Mark Kantrowitz, "The Smart Student Guide to Financial Aid," FinAid, <http://finaid.org/loans/studentloan.phtml> (accessed June 23, 2006).

<sup>18</sup> *Ibid.*

The Perkins Loan program is much smaller than the Stafford Loan program, with just \$1.6 billion awarded to campuses in 2003.<sup>19</sup> It began in 1958 as the National Defense Student Loan program and was part of the first federal student aid program for low-income students. Despite proposals by the Bush administration to eliminate it in 2005, the final budget resolution kept the program intact.<sup>20</sup> Federal Perkins loans are low-interest (5 percent) loans for both undergraduate and graduate students with financial need, and are subsidized while recipients are in school, as well as for a nine-month grace period. Unlike Stafford loans, the Perkins loans are campus-based, meaning federal funding is distributed to campuses, which then allocate the loans to students.<sup>21</sup> Loans are repaid to the school rather than the federal government. Annual limits are set at \$4,000 for undergraduates and \$6,000 for graduates. Cumulative maximums are \$20,000 and \$40,000, respectively.<sup>22</sup>

### **State and Institutional Loan Programs.**

Some states offer loans to students. For example, Michigan provided 3,617 loans to students attending postsecondary, degree-granting institutions in the state through a program called MI-LOAN in 2003–4.<sup>23</sup> The Massachusetts Educational Financing Authority offers loans to students attending institutions in Massachusetts, as well as to Massachusetts residents attending colleges out of state. State loan programs, however, tend to be small in terms of the number of borrowers.

Some colleges and universities also provide loan programs for their students. These programs are often funded by the institution or in conjunction with an outside lender. Eligibility is often based on need, and borrowing is generally limited to the cost of attendance, minus any other aid the student receives.

### **Private Loan Options for Students.**

Besides the federal government, the other major source of loans is the private market. Private loans are on the rise, with a rate of growth in 2004–5 higher than that of any other type of student aid.<sup>24</sup> While this growth may in part be attributed to more borrowers or larger loans, some of it is due to increased options in the private loan market. In a 2003 study, researchers at the Institute for Higher Education Policy (IHEP) found that the number of private loan products, or private loans with different types of terms and conditions, grew 244 percent from 1997 to 2003, increasing from 79 products to 272.<sup>25</sup> Unfortunately, it is difficult to get good information on private loans, so these numbers likely underestimate the students taking on private or alternative debt.

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<sup>19</sup> U.S. Department of Education, “Federal Campus-Based Programs Data Book 2005,” <http://www.ed.gov/finaid/prof/resources/data/databook2005/index.html> (accessed June 6, 2006).

<sup>20</sup> Jeffrey Selingo, “Budget Agreement Saves Perkins Program,” *Chronicle of Higher Education*, May 15, 2005, A22.

<sup>21</sup> Perkins funding is distributed based on a two-part statutory formula. The first part, a base guarantee, considers a school’s expenditures in the previous year. The second part allocates remaining funds based on fair share, or an institution’s need; American Council on Education, “Analysis of Campus-Based Program Allocation Changes Proposed in H.R. 4283,”

<http://www.acenet.edu/AM/Template.cfm?Section=Search&template=/CM/HTMLDisplay.cfm&ContentID=7450#current> (accessed July 21, 2006).

<sup>22</sup> Kantrowitz, “The Smart Student Guide to Financial Aid.”

<sup>23</sup> These loans amounted to \$26.4 million in alternative funding to assist students and parents in meeting postsecondary education costs; Michigan Higher Education Assistance Authority and Student Loan Authority, *Annual Report: Fiscal Year 2003–04* (Lansing: Michigan Higher Education Assistance Authority and Student Loan Authority, 2004).

<sup>24</sup> Baum and Payea, *Trends in Student Aid: 2005*.

<sup>25</sup> Wegmann, Cunningham, and Merisotis, *Private Loans and Choice*; the wide array of private loans available today is enumerated in chapter 6.

While usage is growing, the percentage of students with private loans remains small compared to those in federal loan programs. Only 5 percent of undergraduate students and 7 percent of graduate students borrowed from private sources in 2003–4. According to our calculations using data from the National Postsecondary Student Aid Survey (NPSAS; see below), undergraduates borrowed an average amount of \$5,911 from private lenders in 2003–4, while the average graduate student loan was \$9,264.

Why is the use of private loans increasing? Some research suggests that many students use private debt to bridge the gap between the cost of attendance and financial aid packages due to insufficient federal loan limits. According to Kate Rube of IHEP, the average undergraduate dependent student with a family income under \$30,000 borrowed \$3,200 in private loans, close to the average of low-income students' unmet need of \$3,800 cited by the Advisory Committee on Student Financial Aid.<sup>26</sup>

Credit cards are yet another source of finance for many of today's college students. Based on their review of several studies, Robert Manning and Ray Kirshak estimate that 75–85 percent of undergraduates at four-year institutions hold universal bank credit cards.<sup>27</sup> Furthermore, they find the highest proportion of credit-card holders at private universities. A study by Nellie Mae in 2005 found almost 24 percent of undergraduates use credit cards for tuition expenses, while 71 percent report using them to pay for textbooks.<sup>28</sup> Unfortunately, there is little information on the widespread use of credit-card debt to fund college expenses.

### College Loans for Parents and Other Loan Options.

Students are not the only borrowers in the college loan market. In reaction to growing concern that the burden of paying for college was shifting from parents to their children, the federal government created the PLUS program in the HEA reauthorization of 1980.<sup>29</sup> The program provides access to capital for many parents unable to secure loans from other sources.<sup>30</sup> These loans have no annual or aggregate limits except that parents may not borrow more than what is needed to cover the cost of attendance, net other financial aid.<sup>31</sup> In 1981, the Omnibus Reconciliation extended the terms of the PLUS program to independent students under Auxiliary Loans to Assist Students (ALAS). Most recently, the program was extended to graduate and professional students as part of the 2005 HERA. As of July 2006, students are also eligible to take out a PLUS Loan. Like Stafford loans, interest rates for PLUS loans in the past varied from year to year. However, a provision of the 2005 HERA fixed the interest rate at 6.8 and 8.5 percent.

Over the last decade, loan volume in the PLUS program increased steadily, going from 8 percent of Stafford borrowing in 1994–95 to 16 percent in 2004–5.<sup>32</sup> The expansion is due in large part to the growing number of parents trying to secure loans to help pay for college. Between 1994–95 and 2004–5, the number of borrowers has more than doubled, from 3.27 million to 8.10 million. Moreover, between 2003–4 and 2004–5, both the number of borrowers and the number of loans grew more rapidly in PLUS

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<sup>26</sup> Kate Rube, *Private Loans: Who's Borrowing and Why?* (Los Angeles: State Public Interest Group Higher Education Project, 2003).

<sup>27</sup> Robert Manning and Ray Kirshak, "Credit Cards on Campus: Academic Inquiry, Objective Empiricism or Advocacy Research?" *Journal of Student Financial Aid* 35, 1 (2005): 39–48. \*\*Issue number or season or month?

<sup>28</sup> Nellie Mae, *Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends* (Braintree, Mass.: Nellie Mae, 2005).

<sup>29</sup> Angelica Cervantes, Angelica, Marlean Creusere, Robin McMillion, Carla McQueen, Matt Short, Matt Steiner, and Jeff Webster, *Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later* (Round Rock: TG Research and Analytical Services, 2005).

<sup>30</sup> Only students are eligible to participate in federal loans programs such as Stafford and Perkins.

<sup>31</sup> The cost of attendance is unique to each student for each school. When calculating the cost of attendance for a student, financial aid administrators consider fixed expenses such as tuition and fees, as well as variable costs such as housing and personal expenses.

<sup>32</sup> Baum and Payea, *Trends in Student Aid: 2005*.

than in the subsidized or unsubsidized Stafford programs. Annual loan averages in the program amounted to \$9,416 in 2004–5.<sup>33</sup>

Like students, parents are also increasingly turning to alternative or private options for college loans. One emerging alternative is the home equity loan. While little research is available regarding their usage, a review of college financial aid websites suggests that home equity loans are being marketed to families as yet another option for funding postsecondary education.<sup>34</sup> If this practice becomes more prevalent, differences in home ownership rates for lower-income and minority families will likely affect the distribution of the loans.

### The Characteristics of Borrowers

The following section examines the nature of student demand for college loans. The analysis highlights how borrowing patterns differ by enrollment status and the type of institution attended, as well as by student characteristics such as race and income. Our research on participation in the various loan programs is based on new analysis of data from the 2003–4 National Postsecondary Student Aid Study. The NPSAS is a comprehensive, nationally representative survey of college students, sponsored by the National Center for Education Statistics (NCES). It is designed to determine how students and families pay for postsecondary education and to describe some demographic and other characteristics of those enrolled.<sup>35</sup> In this analysis, the term “borrower” refers to a student who applied for, qualified for, and received a loan. Unfortunately, there is not an equivalent data source for loan applicants that would provide information on all students trying to obtain loans, nor is there a way to distinguish those who qualified for a loan but chose not to receive it.

Our discussion of the data focuses largely on federal programs such as Stafford, Perkins, and PLUS, as well as private loans. While less attention is paid to state or institutional loans due to the low percentage of students with these types of debt, data on these loans are available in the tables. Unfortunately, we do not have information on home equity loans or credit-card debt used for higher education expenses.

There are several factors to consider when assessing the characteristics of borrowers. First, one must distinguish between the *percentage* of students who take out a particular type of loan and the average *amount* of those loans. In some cases we find that a particular group of students is very likely to utilize a certain program, but that the average amount borrowed is relatively small. It is also important to make a distinction between annual and cumulative loan amounts, which are discussed in a later section.

#### Borrowers by Attendance Pattern.

Enrollment intensity, or whether a student is enrolled full-time or part-time, is one factor that influences the amount of aid a student is eligible to receive, since costs will be less for those attending less than full-time. Additionally, the demand for loans may be affected by enrollment intensity, since part-time students may have a greater ability to pay for college expenses with concurrent employment. As table 3-2 shows, the percentage of students borrowing is greatly affected by enrollment. Of full-time students, 47 percent borrowed, versus 18 percent of part-time students. This is almost identical to the 44.2 percent and 16.6 percent, respectively, of full-time and part-time students participating in the Stafford program. Despite large disparities in participation rates, little difference is observed in the average loan

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<sup>33</sup> Ibid.

<sup>34</sup> The private loan figures presented in this chapter do not include home equity loans or credit card debt.

<sup>35</sup> Part of the data from the NPSAS are publicly available using the NCES’s Data Analysis System, <http://nces.ed.gov/das> (accessed January 4, 2007).

amounts by enrollment intensity (\$5,960 versus \$5,238). This may reflect the facts that both full-time and part-time students will borrow up to their limits, and that a large portion of borrowing occurs in the federal programs.

Full-time students are also more likely to participate in the private loan market, with 7.4 percent borrowing privately, compared to 1.8 percent of part-time students. Although differences in the average loan amount were not observed either overall or for the Stafford Loan program, full-time students borrowed 43 percent more on average in private loans (\$6,160 versus \$4,318). Since the private loan market does not set annual limits like federal programs do, it is unsurprising that full-time students, who likely face higher costs than those attending only part-time, would obtain more debt from these sources.

### **Loan Demand by Type of Institution.**

The type of institution attended heavily influences student reliance on loans and the size of the loans. Table 3-3 shows many differences according to the level of the institution (four-year, two-year, or less than two-year) and the sector (public, private, or for-profit).

At the four-year institutions, 50 percent of students borrowed, compared to only 18 percent at two-year institutions. This disparity might be influenced by the likelihood that more part-time students are found at two-year institutions, affecting the cost of attendance and the resulting demand for loans, as discussed earlier. Stafford borrowing trends were similar to overall borrowing, with 48 percent of students attending four-year institutions and 16.9 percent from two-year institutions participating in the program. Students who enrolled in less-than-two-year programs, such as certificate programs, borrowed at the same rate as those attending four-year institutions (49.9 percent), but they borrowed less on average (\$5,059 versus \$6,279). The percentage of students turning to the private loan market reflects a similar pattern of demand by institutional level. Just over 7 percent of four-year students, 1.8 percent of two-year students, and 4.4 percent of less-than-two-year students took out private loans.

Even more disparities appear among public, private, and for-profit institutions. The higher cost of private institutions and the resulting increased demand for loans is evident for those attending private four-year compared to public four-year institutions. At private four-year schools, 56 percent of students borrowed, compared to 45 percent at public four-year schools. These numbers closely reflect differences in Stafford borrowing rates, with 53 percent and 42 percent, respectively, participating in the program from private nonprofit and public four-year institutions. Moreover, almost 12 percent of students at private colleges borrowed from private lenders, compared to only 5 percent at public institutions. A startling 73 percent of students who attended for-profit, proprietary colleges borrowed, with 71.7 percent borrowing from the Stafford Loan program.

Finally, parents of students at private colleges seem to have demonstrated either an increased willingness or a greater need to borrow to finance the higher costs associated with these schools. Participation in the PLUS program among parents of students at private, nonprofit, four-year colleges was 7.8 percent, almost 60 percent higher than the 4.9 percent participation rate of parents of students at public four-year institutions. Private-school parents, in addition to having higher participation levels, took out much larger PLUS loans than parents of public four-year students (\$11,392 versus \$7,765). Virtually no parents (less than a quarter of a percent) whose children enrolled in public two-year programs took out PLUS loans. However, the borrowing rate for parents with children at for-profit, proprietary schools, which tend to be two-year or less, matched that of parents of children in public four-year programs (4.9 percent). Cost differentials and differences in attitudes toward borrowing for education likely influenced these disparities. Additionally, some of the observed differences by institutional sector may have resulted from differences in the ways financial aid offices market loan options.



### **Borrowers by Income and Dependency.**

The next set of tables compares student loan demand by income level. These are shown separately for dependent and independent students for two reasons. As discussed above, the income distributions and attendance patterns tend to be vastly different for these two types of students. In addition, financial aid is awarded differently by dependency status, as illustrated by the different loan limits for each group. As shown in tables 3-4 and 3-5, in 2003–4 a higher percentage overall of dependent students took out loans than independent students (38.1 percent versus 32 percent). However, independent students borrowed, on average, over \$1,100 more than dependent students. In terms of specific loan programs, the percentage of students participating in the Stafford program differed little by dependency status; approximately one-third of both dependent and independent students took out a Stafford loan. Average loans in the program were 50 percent higher for independent students—\$5,984, compared to \$3,982 in 2003–4. While less than 1 percent of students in each category borrowed through state or institutional loan programs, dependent students received, on average, larger loans from these nonfederal sources. They and their families turned to PLUS and private loans at nearly equivalent rates, with 6.7 percent and 6.9 percent, respectively, carrying these loans.

There are several possible explanations for the lower percentage of independent students participating in loan programs. One is that they received more grant aid because financial aid calculations are more generous for them. Alternatively, since independent students tend to select lower-cost institutions, they were more likely to attend less than full-time and therefore required fewer loans.

Among dependent students, demand for loans was not limited to low-income students and families. Both dependent and independent students in the top income quartile, however, were the least likely to have any loans. Thirty-seven percent of dependent students in the lowest income quartile borrowed in the Stafford Program while in comparison only 30 percent of students in the highest income quartile did so. These two groups borrowed average amounts of \$4,026 and \$4,018, respectively, suggesting income is not a strong indicator of demand in the Stafford program.

Participation in the PLUS program paints a very different picture. A lower percentage of parents of students in the lowest income quartile took out PLUS loans than those in the highest income quartile, and, on average, the lower-income families borrowed a smaller amount. PLUS borrowers from the lowest income quartile borrowed an average of \$6,906, while those from the highest borrowed \$11,075 on average. This disparity may have been a result of differences in the cost of attendance at their children's schools, or perhaps a reflection of attitudes toward borrowing to pay for college.

Perkins Loans, which are need-based, are largely awarded to low-income students. About 8 percent in the lowest income quartile took out a loan, compared to 1.8 percent in the highest quartile. While it might seem strange for any students in the highest quartile to qualify for a need-based loan, it is important to remember that need is not only a function of income, but also the cost of attendance, as well as other factors—such as how many siblings are in college at the same time—that affect a family's EFC.

In absolute terms, demand for private loans varied only slightly between income groups, but the differences were significant considering the small percentage of students borrowing from these sources. The highest level of participation was by students in the third income quartile, with a little more than 8 percent holding private loans. In the lowest income quartile 5.5 percent of students borrowed, or 45 percent fewer than in the third quartile. Roughly 7 percent of students in the second quartile and 6.6 percent in the highest quartile took out private loans. Although the highest-income students did not participate at the greatest rate in the private market, they borrowed significantly more on average than other students. Students in the highest income quartile borrowed \$7,698 on average, 47 percent more than the average private loan of \$5,245 for students in the lowest quartile.

Not only did the highest-income, dependent students borrow more from private sources; the data suggest these students carried a larger average loan in every program except Stafford. While the data do

not reveal the reasons for borrowing, explanations may include higher costs of attendance due to school choice, greater familiarity with borrowing, or less eligibility for grant aid. Furthermore, higher-income students might be willing to accept larger loans than low-income students because of differences in attitudes toward borrowing and confidence in their ability to repay the loan.

Independent students exhibited somewhat reverse trends by income status in terms of the percentage participating in the different loan programs, with a higher percentage of low-income students receiving loans. Also, independent students from lower-income groups borrowed more, on average, than those in higher-income groups.

The patterns observed by income level are partly due to differences in enrollment patterns. Upper-income students are more likely to attend full-time and to choose four-year institutions. To account for this, table 3-6 explores differences in the use of loans within the group of students who attended mostly full-time, and by institution type. Even accounting for enrollment intensity, students in the highest income quartile were less likely to take out loans. Those in the lower-middle income quartile took out the highest proportion of loans. Overall, the loan rates were higher for each income group among only full-time students. Differences are also evident by income level within institution type, but they were much larger.

### **Borrowers by Race or Ethnicity.**

Tables 3-7 and 3-8 display loan usage by race or ethnicity. A higher proportion — 43.1 percent — of black students overall had loans (excluding PLUS), compared to white (35.2 percent), Hispanic (29.8 percent), and Asian (24.8 percent) students. In terms of the Stafford Loan program, minority students borrowed larger amounts on average. Among minority groups, however, the percentages of students receiving these loans differed greatly, with 41.6 percent of black compared to 27.9 percent of Hispanic and 21.7 percent of Asian students receiving these loans (table 3-7). Among white students, 33.5 percent borrowed from the Stafford Loan program. White students were most likely to take out private loans, with approximately 5 percent borrowing from this source, but there was not a great deal of variation in borrowing by race. Black students were least likely to carry private loans, with just over 4 percent doing so in 2003-4.

Parental borrowing among racial groups followed a similar pattern to private borrowing, with 3.8 percent of white parents having PLUS loans, while 2.4 percent of black, 2.3 percent of Hispanic and 2.5 percent of Asian parents used PLUS loans. Average loan amounts in the PLUS program were greatest for Asian and white students at \$9,311 and \$9,138, respectively. Out of the groups for which race was known, Hispanic students borrowed the least, with an average loan of \$8,582.

Like table 3-6, table 3-9 attempts to account for differences in enrollment patterns by race. Looking at the loan usage of full-time students only, it is clear that students of color were still more likely to take out a loan. The pattern is also robust within institution type. Therefore, enrollment pattern and institution type do not appear to explain away differences in the use of loans.

### **Concerns about Student Loans: Too Much or Not Enough Debt?**

So far we have detailed annual loan amounts. To truly understand the role of debt, however, one must consider the total, or cumulative, amount students take out to cover their college expenses.

### **Trends in Cumulative Debt.**

As might be expected given the growing amount of debt outlined above, it is not surprising to find that the cumulative amount of student debt has been rising steadily since 1992–93. As table 3-10 shows, the total cumulative amount of debt held by second-year undergraduates at public two-year institutions increased an average of 106 percent in 2003–4 dollars, from \$3,087 in 1992–93 to \$8,296 in 2003–4. Amounts over this period for fourth-year undergraduates at public and private were 76 percent and 57 percent higher, respectively. The College Board calculates slightly different numbers, yet our calculations show that, considering all sources of loans except PLUS loans, these students accumulated on average \$17,507 and \$21,946 in debt, respectively. Part of this increase is due to the creation of unsubsidized Stafford loans and relaxed eligibility for other aid.

While the averages in table 3-10 take into account programs such as subsidized and unsubsidized Stafford loans, as well as campus-based programs like Perkins, information is also available on cumulative federal loan amounts. Huge disparities among borrowers at different types of institutions suggest that school choice is a key determinant of cumulative debt level. Not only are there differences between two- and four-year institutions, but also between public and private as well as public and proprietary, for-profit institutions. According to the College Board, the median total amount of federal loans taken out by bachelor's degree recipients in 2003–4 was \$15,500 at public institutions. Four-year degree recipients attending private institutions faced a median debt of \$19,400, almost 25 percent more. Students attending associate's programs at for-profit institutions reached federal debt levels almost equal to bachelor's degree recipients from public institutions, accruing a median total of \$16,100.<sup>36</sup>

Parents are also borrowing increasingly more to support the college educations of dependent children. Table 3-11 presents a summary of the cumulative amounts borrowed through the PLUS Loan program from 1992–93 to 2003–4. It demonstrates that students are not the only ones facing larger loan debts. Growth in cumulative amounts borrowed over this period was tremendous for parents with students at private four-year colleges. In 2003–4, parents had borrowed \$19,468 by a student's fourth year, up 113 percent from \$7,005 in 1992–93.

### **Measuring the Burden of Debt.**

In order to understand whether the increases in student loans over time have had a significant effect, one must consider not only the cumulative amount borrowed, but also debt burden. Debt burden, defined as the percentage of income that must be dedicated to loan payments, provides a way to measure the impact of student borrowing. In 2004, the American Council on Education (ACE) issued a report that concluded that the median debt burden for students receiving their bachelor's degrees in the 1990s was manageable, based on general debt guidelines, and stable at 7 percent.<sup>37</sup> However, one-third of borrowers faced debt burdens of more than 8 percent,<sup>38</sup> the level above which financial aid researchers consider debt burden to be a concern.<sup>39</sup> Additionally, there may be reason for concern in the future. A study by the USA Group looking at Stafford loans revealed that the share of undergraduate and graduate student borrowers

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<sup>36</sup> American Council on Education, *Federal Student Loan Debt: 1993 to 2004* (Washington, D.C.: American Council on Education, 2005).

<sup>37</sup> The analysis in the report was based on the 1994 and 2001 Baccalaureate and Beyond Studies conducted by NCES. All debt and income dollar amounts were adjusted for inflation.

<sup>38</sup> Guidelines regarding the percentage of pretax income devoted to student loans are meant to ensure that borrowers are able to meet other expenses, such as car payments, rent or mortgage, and additional household expenses. The 8 percent rule was derived from credit-underwriting standards which limit monthly mortgage payments to 25–29 percent of a borrower's income and total monthly debt payments to 36–41 percent of income; Patricia Scherschel, *Student Indebtedness: Are Borrowers Pushing the Limits?* (Indianapolis: USA Group Foundation, 1998).

<sup>39</sup> American Council on Education, *Debt Burden: Repaying Student Debt* (Washington, D.C.: American Council on Education, September 2004).

who left school with cumulative debts in excess of \$25,000 increased significantly in the mid- to late-nineties after the limit was increased and borrowing restrictions eased.<sup>40</sup>

Default rates are another measure of how students are coping with their loan debt. A recent report looking at 1992–93 borrowers ten years after bachelor’s degree completion finds larger loans associated with higher default. Of borrowers with \$15,000 or more in Stafford loans, 20 percent entered default during this period, compared to 13 percent borrowing \$10,000–\$14,999, 8 percent borrowing \$5,000–\$9,999, and 7 percent borrowing \$5,000 or less.<sup>41</sup> Thus, there is again reason for concern as average debt amounts rise.

While students can default at any time during repayment, starting salaries appear to be an important determinant of who cannot pay their loans. Borrowers with the highest starting salaries in 1994 were the least likely to default over the ten-year repayment period. Only 4 percent did so, compared to 17.4 percent of borrowers with the lowest starting salaries. Therefore, it is likely that more students will face repayment difficulties if the average starting salaries of people who attend college do not grow at a pace to keep up with rising debt levels.

### **Too Much Debt? Concerns about the Effect of Debt Burden.**

As the percentage of students relying on loans rises along with the average amount of cumulative debt, concern grows regarding the impact of student loans on life after college. Beyond the burden on individuals of monthly payments, loans may have negative effects on the overall economy. Does debt accrued in school delay later decisions, such as buying a house, getting married, or even starting a family? Research on this question is mixed. Over a fifteen-year period, Nellie Mae has conducted four surveys of borrowers in repayment, finding that attitudes toward education debt have been becoming more negative over time.<sup>42</sup> While previous analyses found no effect on the likelihood of home ownership, the 2002 survey found home ownership rates decreased by 0.2 percentage points for every \$1,000 in loans. This means that for every additional \$5,000 in student loans, the likelihood of owning a home decreased by 1 percent.<sup>43</sup> This effect probably does not warrant a great deal of concern about student loans affecting homeownership, especially since age and marital status were stronger predictors of whether or not someone owned a home. However, as cumulative debt amounts increase, this may become a problem in the future.

Other studies suggest loan debt does not affect decisions to live independently or to marry. Or, if there is an impact, it disappears over time, with no significant differences reported between borrowers and nonborrowers ten years after graduation in measures of educational, career, and family development.<sup>44</sup>

An additional concern raised in recent years is how the growing reliance on loans might influence students’ choice of college major and subsequent occupation. Particularly in public service areas, such as teaching, the need to use loans to cover costs unmet by grants or other forms of aid might deter students

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<sup>40</sup> Patricia Scherschel, *Student Indebtedness*.

<sup>41</sup> U.S. Department of Education, National Center for Education Statistics, *Dealing with Debt: 1992–93 Bachelor’s Degree Recipients 10 Years Later*, by Susan Choy and Xiaojie Li (Washington, D.C.: Government Printing Office, 2006).

<sup>42</sup> The National Student Loan Survey (NASLS) was conducted in 1987, 1991, 1997, and 2002. The 2002 NASLS survey population was drawn from a random sampling of student loan borrowers in repayment, with at least one federal loan held by Nellie Mae and a valid U.S. postal address. All borrowers included had started payments at least six months but no more than four years prior to the survey. Borrowers in default were excluded. The survey had 1,280 responses, a response rate of 24 percent.

<sup>43</sup> Sandy Baum and Marie O’Malley, *College on Credit: How Borrowers Perceive Their Education Debt: Results of the 2002 National Student Loan Survey* (Braintree: Nellie Mae Corporation, 2006).

<sup>44</sup> Susan Choy and C. Dennis Carroll, *Dealing with Debt: 1992-93 Bachelor’s Degree Recipients 10 Years Later*. (Washington, D.C.: June 2006).

from entering a field. A recent report by the Higher Education Project of the State Public Interest Research Groups (PIRG) looked closely at the impact of debt on graduates entering teaching and social work by comparing average starting salaries and debt burdens. Using a benchmark developed in a 2005 report by Baum and Schwartz, the report found that 23 percent of graduates from public and 38 percent from private colleges and universities would have unmanageable debt as starting teachers.<sup>45</sup> Students entering social work would be even worse off, with 37 percent and 54 percent, respectively, of public and private college graduates facing unmanageable debt.<sup>46</sup>

Using what we know about median debt levels and income, we can construct an example of the average debt burden starting teachers may face. In 2003–4, the average starting salary for a teacher was \$31,704, according to the American Federation of Teachers.<sup>47</sup> Given the average debt accrued by full-year undergraduates in their fourth year at a public college and assuming a standard ten-year repayment schedule with a 6.8 percent interest rate, a graduate with a cumulative debt of \$17,507 would face a monthly payment of \$201.47.<sup>48</sup> This would represent 7.6 percent of his or her pretax monthly income of \$2,642. A graduate from a private university with a cumulative debt of \$21,946 could expect monthly payments of \$252.56, or 9.6 percent of monthly pretax earnings. While the numbers are not far from the 8 percent upper limit for unmanageable debt, these scenarios may present more favorable conditions than many students face. If part of their debt is in the form of private loans, students may face interest rates greater than the government's rate of 6.8 percent. Additionally, most students take more than four years to graduate. Finally, it is important to note that the calculations do not reflect cost of living and are only representative of an average.

While there are good reasons to believe loan debt is becoming too large for many, some argue that students may be taking on increased debt burdens as a means of facilitating choice or lifestyle. This argument finds some support in the evidence regarding private loan usage by high-income students. Researchers at the IHEP have concluded that private loans help students attend their first-choice schools, with financial need being a function of high costs of attendance rather than low ability to pay.<sup>49</sup> In other words, private loans may not be necessary to attend college, but they may be necessary for some students to attend their dream schools. Kate Rube supports this finding, reporting that 75 percent of private loan borrowers lack demonstrated financial need in accordance with the federal government's definition. Moreover, 92 percent of dependent students borrowing from private sources come from families with incomes over \$100,000 and do not demonstrate unmet need.<sup>50</sup>

### **The Loan Limit Debate.**

Given concerns about the growing debt burden, some suggest that the government should hold fast to limiting the amount a student can borrow. Those supporting this notion include the American Association of Community Colleges (AACCC), the American Association of State Colleges and

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<sup>45</sup> To replace the 8 percent rule used by financial aid researchers to define manageable student debt, Baum and Schwartz created a graduated benchmark system. The system suggests that anyone earning less than half of the median income should not make loan payments, while at the upper end of the earning spectrum, no one should pay more than 17–20 percent of pretax income on debt. Students in the middle, according to the benchmarks, would not be expected to pay more than 20 percent of their discretionary income, defined as income exceeding half of median earnings. Sandy Baum and Saul Schwartz, *How Much Debt is Too Much? Defining Benchmarks for Manageable Student Debt* (Washington, DC: Project on Student Debt and The College Board, November 2005).

<sup>46</sup> Swarthout, *Paying Back*.

<sup>47</sup> American Federation of Teachers, *Survey and Analysis of Teacher Salary Trends 2004* (Washington, D.C.: American Federation of Teachers, 2005).

<sup>48</sup> Calculated using the student loan calculator at [www.finaid.org](http://www.finaid.org).

<sup>49</sup> Wegmann, Cunningham, and Merisotis, *Private Loans and Choice*.

<sup>50</sup> Rube, *Private Loans: Who's Borrowing and Why?*

Universities (AASCU), and the United States Student Association (USSA). They argue that students already have too much debt and do not always make responsible decisions about loans. Furthermore, opponents to raising the loan limits argue that doing so would relax pressure on the federal government, states, and schools to provide need-based aid or may encourage colleges to raise prices more than they otherwise would.<sup>51</sup>

On the other hand, proponents of increasing loan availability argue that loans are necessary to cover essential costs related to a college education, and that loan limits have not kept pace with increasing costs. They point to the percentage of students borrowing at or near the maximum amounts allowed in the federal loan programs as proof that they are not able to borrow enough. For example, in 2003, Jacqueline King (of ACE) reported that 69 percent of all dependent undergraduate Stafford borrowers were at or above the limit, as were 76 percent of first-year students.<sup>52</sup> Supporters of raising the loan limits, such as ACE, the Association of American Universities (AAU), and the National Association of Student Financial Aid Administrators (NASFAA), have also argued that the insufficient limits have encouraged students to seek less favorable private loans. According to Kenneth Redd, 90 percent of high-cost institutions indicated that students received private loans because they had exceeded the annual loan limits allowed under federal programs.<sup>53</sup> Perhaps in response to these arguments, under the Deficit Reduction Act of 2005 the annual limits increased. However, the role of loan limits in access and debt burden will continue to be debated, and the repercussions of the recent increase will be watched closely.

### **Not Enough Debt? The (Un)Willingness to Take Out Loans.**

On the other side of the debate about loan burden, some worry that differences in willingness to borrow by race or income may affect opportunities for postsecondary education. A 2003 report by the Educational Credit Management Corporation investigating cultural barriers to incurring debt concluded that differences in willingness to borrow among ethnic groups were attributable to socioeconomic differences.<sup>54</sup> The report used mortgage status as a proxy for a family's general willingness to borrow and found that although students from households with mortgages are generally wealthier than students from households that rent, a greater percentage took out loans. It is not possible to say whether this is solely a reflection of attitudes toward borrowing, since, as we have mentioned, students from lower-income families (represented by renters) may self-select into lower-cost schools or attend part-time.

The data presented in this chapter suggest that the percentage of minority students borrowing is just as high, if not higher, than that of nonminorities. However, because our data only considers minority students who have already chosen to enroll, there is likely to be selection bias in the analysis. In other words, the data tell one nothing about the thousands of minority students who choose not to attend college, perhaps due to a reluctance to take out loans, the most prominent form of financial aid.

### **Debt and College Dropouts.**

An often overlooked aspect of student borrowing is the effect of loans on those students who fail to complete a degree. Since many students must borrow to finance their educations, persistence takes on an added importance as the costs of college increase. Unfortunately, the national six-year graduation rate

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<sup>51</sup> This accusation originated in William Bennett's article, "Our Greedy Colleges," *New York Times*, February 18, 1987.

<sup>52</sup> King, *Status Report on the Federal Education Loan Programs*.

<sup>53</sup> Kenneth Redd, *The Use of Private Student Loans at High-Cost Postsecondary Education Institutions in Academic Year 1997–98* (Reston, VA: Sallie Mae, 1999).

<sup>54</sup> ECMC Group Foundation, *Cultural Barriers to Incurring Debt: An Exploration of Borrowing and Impact on Access to Postsecondary Education* (Santa Fe: ECMC Group Foundation, 2003).

at four-year colleges is only about 57 percent, or 63 percent taking into account students who transfer to other colleges.<sup>55</sup> While it is difficult to follow students once they drop out of school, recent work by Lawrence Gladieux and Laura Perna found that undergraduate borrowers who dropped out accumulated a median debt of \$7,000.<sup>56</sup> Students who dropped out of four-year programs accumulated a median debt of \$10,000, while that for dropouts from associate’s degree programs was \$6,000. More importantly, 22 percent of borrowers who dropped out defaulted on at least one loan in the six years following initial enrollment, while only 2 percent of graduates did so.<sup>57</sup>

Therefore, the issue of debt is very much tied to the goal of college degree completion. To be able to afford to repay what they borrow, students need to be able to reap fully the benefits of higher education by completing their degrees. Unfortunately, researchers suggest that persistence is related to the amount of unmet financial need—students are less likely to persist if they are unable to meet the costs of higher education. This can create a “catch-22” for students who already have significant debt but not enough resources to complete their degrees. Given the millions who incur debt but do not finish their degrees, this issue cannot be ignored.

### Conclusions

This chapter has attempted to provide an overview of the demand for student loans by examining the types of programs available, who uses them, and annual and cumulative loan amounts. While federal loans are the most prevalent by far, the average loan amounts from private sources are often higher than the average amounts borrowed from federal sources. Institutional choice plays a significant role in who participates in loan programs, as a higher percentage of students attending private four-year colleges borrow, and borrow larger amounts, than students at public four-year schools. Enrollment intensity also matters, as students attending college part-time are less likely to borrow. However, loans are utilized by high-income as well as low-income students. And although there are concerns about differences in the willingness to take out loans by background, minority students utilize student loans at equal if not higher rates than others, although they borrow smaller amounts on average. In short, reliance on student loans is not limited to any one characteristic or profile.

During the next couple of years, loan debt will continue to grow as a result of the recent increases in federal loan limits, as it did after the 1992 changes. Also, in an era of declining grant aid and rising tuition and other college costs, larger loans will be necessary for some students to attend college. Others may rely on larger loans to facilitate school choice or ensure they will not have to work while in school. Aside from developing stronger entrance counseling and providing students with the information they need regarding debt repayment after college, there is little policymakers can do to limit the demand for loans, and, in some cases, restricting access to debt is not advisable. Conversely, it is important to ensure that access is not limited for those students who are averse to taking out substantial debt to pay for college.

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<sup>55</sup> U.S. Department of Education, National Center for Education Statistics, *Descriptive Summary of 1995-1996 Beginning Postsecondary Students: Six Years Later*, by Lutz Berkner, Shirley He, and Emily Forrest Cataldi, 2002, <http://nces.ed.gov/pubs2003/2003151.pdf> (accessed December 27, 2006).

<sup>56</sup> Lawrence Gladieux and Laura Perna, *Borrowers Who Drop Out: A Neglected Aspect of the College Student Trend* (San Jose: The National Center for Public Policy and Higher Education, 2005). The principal source of data for the study is the longitudinal Beginning Postsecondary Students (BPS) study and is based on students who first enrolled in postsecondary education in 1995–96. U.S. Department of Education. *1995-96 Baccalaureate and Beyond Longitudinal Study* (Washington, DC: National Center for Education Statistics).

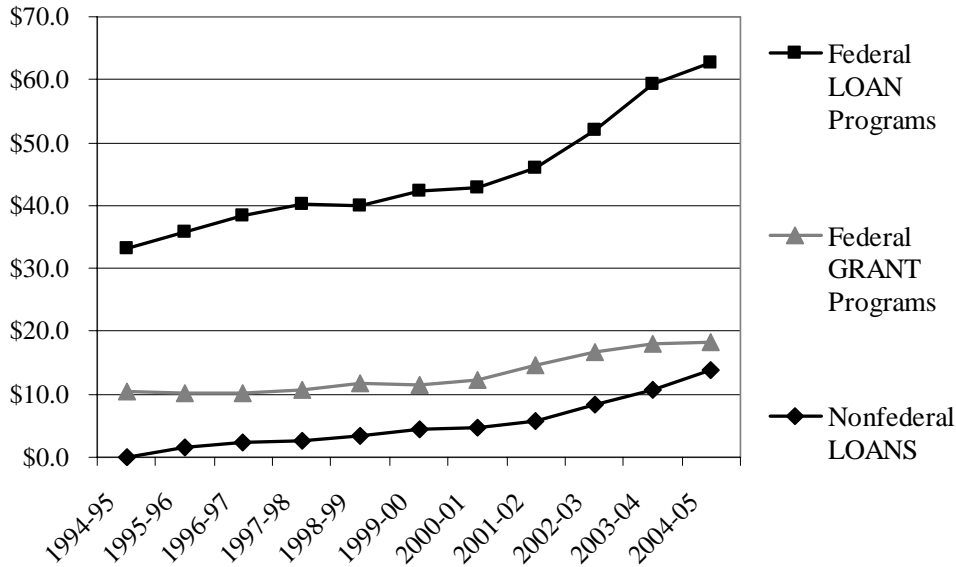
<sup>57</sup> Ibid.

Even with the recent increase in federal loan limits, the role of private loans is likely to continue to grow. As more private options become available and private loan companies continue to mount extensive marketing campaigns, the percentage of students using these private sources will likely double in a short amount of time. One concern associated with this is the fact that private loans have less favorable terms than government loans. Higher interest rates increase the risk of having an excessive loan burden and defaulting. Therefore, as the use of private loans grows, it is likely that so will the number of students who face the negative consequences of having too much debt. This experience will not likely be limited to private loans, however. While the debt burden of government loans has been deemed manageable for most students in the past, the recent increase in the interest rates on federal loans may push significant numbers of students into more onerous repayment schedules.

What is clear is that for many students, loans have become a necessity to finance a postsecondary education. Caution must be taken to balance the benefits of loan availability with the possible, harmful side effects of debt.

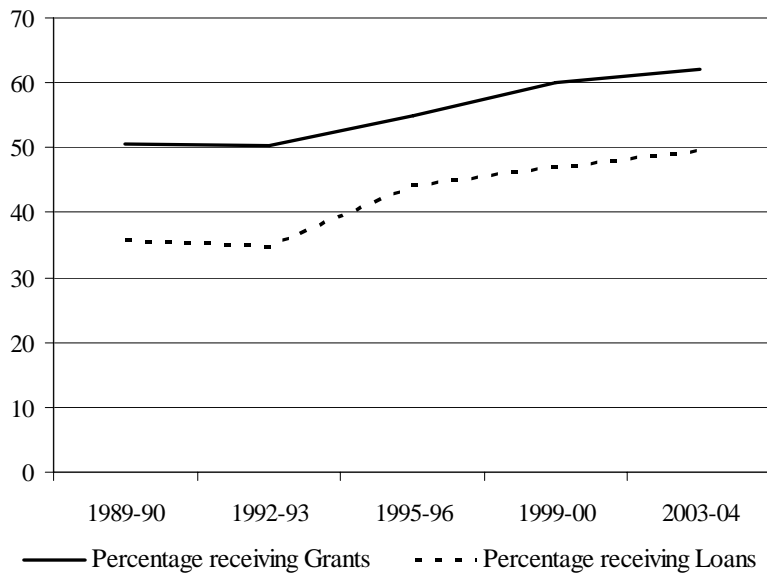


**Figure 3-1: Loans Used to Finance Postsecondary Education, 1994–95 to 2004–05 (billions)**



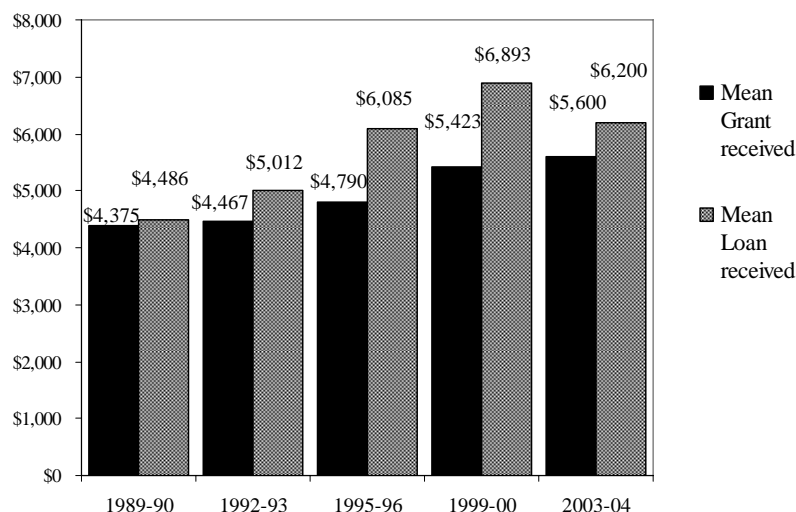
Source: College Board 2005, *Trends in Student Aid*. Data taken from table 2: Aid Used to Finance Postsecondary Education Expenses in Constant (2004) Dollars (in millions), 1994-95 to 2004-05  
 Note: 2004-05 are estimated amounts. Dollar amounts are reported in billions and are in constant 2004 dollars.

**Figure 3-2: The Percentage of Full-Time, Full-Year Undergraduate Students Receiving Any Grant or Loan, 1989–90 to 2003–4**



Source: U.S. Department of Education, National Center for Education Statistics, 1989–90, 1992–93, 1995–96, 1999–2000, 2003–4 National Postsecondary Student Aid Studies.

**Figure 3-3: Average Annual Grant and Loan Amounts Received by Full-Time, Full-Year Undergraduate Students, 1989–90 to 2003–4 (constant 2003 dollars)**



Source: U.S. Department of Education, National Center for Education Statistics, 1989–90, 1992–93, 1995–96, 1999–2000, 2003–4 National Postsecondary Student Aid Studies.

Note: Loan amounts may be from any source but do not include Parental Loans for Undergraduate Students (PLUS).

**Table 3-1: Undergraduate Borrowing in Federal Stafford Loan Programs 1994–95 to 2004–05 (current and constant 2004 dollars)**

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Stafford Subsidized Loans</b>											
Number of Borrowers (000s)	3,515	3,609	3,841	3,933	3,880	3,931	3,988	4,242	4,683	5,239	5,546
Total Dollars (millions)	\$11,240	\$11,614	\$12,531	\$12,864	\$12,603	\$12,885	\$13,059	\$13,789	\$15,510	\$17,584	\$18,764
Average Loan (current dollars)	\$2,888	\$2,928	\$2,957	\$2,965	\$2,956	\$3,002	\$2,990	\$2,950	\$3,002	\$3,039	\$3,070
Average Loan (constant dollars)	\$3,681	\$3,633	\$3,567	\$3,515	\$3,446	\$3,402	\$3,274	\$3,173	\$3,160	\$3,131	\$3,070
<b>Stafford Unsubsidized Loans</b>											
Number of Borrowers (000s)	1,469	1,689	1,941	2,135	2,186	2,423	2,606	2,899	3,225	3,640	3,927
Total Dollars (millions)	\$4,425	\$5,227	\$6,190	\$6,997	\$7,207	\$8,259	\$9,046	\$10,141	\$11,592	\$13,419	\$14,770
Average Loan (current dollars)	\$2,712	\$2,782	\$2,844	\$2,920	\$2,945	\$3,085	\$3,137	\$3,137	\$3,208	\$3,275	\$3,346
Average Loan (constant dollars)	\$3,456	\$3,452	\$3,431	\$3,461	\$3,434	\$3,497	\$3,435	\$3,374	\$3,377	\$3,374	\$3,346

Source: College Board (2005). *Trends in Student Aid*. Table 4: Number of Borrowers, Number of Loans, Total Dollars (in Millions), and Average Loan Amount for Federal Loan Programs in Current and Constant (2004) Dollars, 1994-95 to 2004-05.

Notes: The 2004-05 figures are estimated.

**Table 3-2: Undergraduate Students who Received Loans by Attendance Patterns, 2003–04**

	Total Loans (excl. PLUS)	Federal Stafford Loans	Federal Perkins Loans	State Loans	Institutional Loans	Private (Alternative) Loans	PLUS Loans (parents)
<b>PERCENTAGE WHO RECEIVED WITHIN THE GROUP</b>							
Mostly full-time	46.6	44.2	5.5	0.5	1.0	7.4	5.3
Mostly part-time	17.6	16.6	0.8	0.1	0.2	1.8	0.5
Full-time & part-time equally	32.6	30.9	2.0	0.1	0.5	4.4	1.6
Total Observations	19,054	19,054	19,054	19,054	19,054	19,054	19,054
<b>AVERAGE LOAN AMOUNTS WITHIN GROUP (dollars)</b>							
Mostly full-time	\$5,960 (61)	\$4,894 (27)	\$1,957 (42)	\$4,358 (237)	\$2,830 (228)	\$6,160 (199)	\$9,102 (160)
Mostly part-time	\$5,238 (82)	\$4,961 (82)	\$1,832 (107)	low n	\$2,451 (410)	\$4,318 (174)	\$7,585 (379)
Full-time & part-time equally	\$5,817 (186)	\$5,051 (154)	\$2,060 (166)	low n	low n	\$6,201 (782)	\$9,333 (1,734)
Total Observations	6,670	6,323	683	55	126	978	634

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column. “Low n” appears where the number of valid cases is too small to produce a reliable estimate.

**Table 3-3: Undergraduate Students who Received Loans by Institution, 2003–04**

	Total Loans (excl. PLUS)	Federal Stafford Loans	Federal Perkins Loans	State Loans	Institutional Loans	Private (Alternative) Loans	PLUS Loans (parents)
<b>PERCENTAGE WHO RECEIVED WITHIN THE GROUP</b>							
Four-year	50.2	47.7	6.7	0.5	1.1	7.5	5.7
Two-year	18.0	16.9	0.5	0.1	0.1	2.5	0.8
Less than 2-year	49.9	47.4	0.3	0.02	1.8	7.4	5.0
Public Four-year	44.5	42.1	5.8	0.6	0.6	5.1	4.9
Private Four-year (not-for-profit)	56.3	53.4	9.9	0.5	2.4	11.5	7.8
Public Two-year	12.1	11.1	0.4	0.1	0.1	1.4	0.2
Private For-profit (Proprietary)	73.4	71.7	1.4	0.1	1.0	12.7	4.9
Total Observations	19,054	19,054	19,054	19,054	19,054	19,054	19,054
<b>AVERAGE LOAN AMOUNT WITHIN GROUP (dollars)</b>							
Four-year	\$6,279 (62)	\$5,199 (36)	\$1,949 (40)	\$4,448 (241)	\$2,922 (268)	\$6,435 (156)	\$9,319 (169)
Two-year	\$4,597 (121)	\$4,141 (60)	\$1,919 (116)	\$3,147 (234)	\$2,635 (516)	\$4,451 (588)	\$7,788 (616)
Less than 2-year	\$5,059 (68)	\$4,458 (37)	low n	low n	\$2,136 (124)	\$4,890 (125)	\$6,576 (305)
Public Four-year	\$5,593 (46)	\$4,902 (42)	\$1,885 (43)	\$4,570 (332)	\$2,684 (221)	\$5,392 (163)	\$7,765 (179)
Private Four-year (not-for-profit)	\$6,943 (139)	\$5,058 (65)	\$2,033 (69)	\$4,026 (211)	\$3,096 (474)	\$7,863 (262)	\$11,392 (293)
Public Two-year	\$3,638 (87)	\$3,402 (83)	\$2,023 (167)	\$3,249 (259)	low n	\$3,378 (212)	\$5,642 (632)
Private For-profit (Proprietary)	\$6,759 (176)	\$5,840 (65)	\$2,165 (250)	low n	\$2,342 (336)	\$5,648 (642)	\$8,833 (457)
Total Observations	6,670	6,323	683	55	126	978	634

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Standard errors are presented in parenthesis. Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column. “Low n” appears where the number of valid cases is too small to produce a reliable estimate.

**Table 3-4: Percentage of Undergraduate Students Receiving Loans by Income, 2003–4**

	Total Loans (excl. PLUS)	Stafford Loans	Perkins Loans	Private (Alternative) Loans	State Loans	Institutional Loans	PLUS Loans
All Students	35.0	33.2	3.6	5.1	0.3	0.7	3.3
<i>Dependent students</i>							
All Dependent Students	38.1	35.7	5.2	6.9	0.5	0.9	6.7
Lowest Income Quartile	39.2	36.8	8.2	5.6	0.3	1.1	3.6
Lower Middle Income Quartile	41.6	39.3	7.1	7.2	0.6	1.0	6.2
Upper Middle Income Quartile	39.8	37.3	3.7	8.1	0.5	1.0	8.7
Highest Income Quartile	31.6	29.6	1.8	6.6	0.4	0.6	8.4
<i>Independent students</i>							
All Independent Students	32.0	30.7	2.0	3.4	0.1	0.4	---
Lowest Income Quartile	37.8	35.9	3.5	4.1	0.1	0.6	---
Lower Middle Income Quartile	40.5	39.2	2.4	3.8	0.1	0.6	---
Upper Middle Income Quartile	31.2	30.0	1.7	3.5	0.2	0.3	---
Highest Income Quartile	18.0	17.1	0.3	2.3	0.1	0.1	---
Total Observations	19,054	19,054	19,054	19,054	19,054	19,054	19,054

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column.

**Table 3-5: Average Undergraduate Loan Amount by Income and Dependency Status, 2003–4**  
(dollars)

	Total Loans (excl. PLUS)	Stafford Loans	Perkins Loans	Private (Alternative) Loans	State Loans	Institutional Loans	PLUS Loans
All Students	\$5,816 (52)	\$4,912 (28)	\$1,948 (38)	\$5,911 (175)	\$4,263 (221)	\$2,825 (231)	\$9,019 (160.4)
<i>Dependent students</i>							
All Dependent Students	\$5,282 (63)	\$3,982 (27)	\$1,932 (43)	\$6,349 (165)	\$4,440 (272)	\$3,059 (256)	\$9,019 (160)
Lowest Income Quartile	\$5,041 (98)	\$4,026 (52)	\$1,984 (46)	\$5,245 (274)	\$3,098 (349)	\$2,716 (432)	\$6,906 (344)
Lower Middle Income Quartile	\$5,172 (80)	\$3,946 (40)	\$1,888 (58)	\$5,743 (235)	\$4,051 (322)	\$3,033 (439)	\$7,799 (282)
Upper Middle Income Quartile	\$5,363 (94)	\$3,947 (45)	\$1,829 (65)	\$6,579 (225)	\$4,840 (409)	\$3,083 (412)	\$8,848 (239)
Highest Income Quartile	\$5,634 (106)	\$4,018 (44)	\$2,080 (104)	\$7,698 (302)	\$5,585 (549)	\$3,701 (769)	\$11,075 (271)
<i>Independent students</i>							
All Independent Students	\$6,447 (69)	\$5,984 (48)	\$1,990 (68)	\$5,040 (275)	\$3,608 (365)	\$2,302 (273)	---
Lowest Income Quartile	\$6,203 (91)	\$5,693 (69)	\$2,054 (91)	\$5,093 (386)	low n	\$1,903 (377)	low n
Lower Middle Income Quartile	\$6,289 (97)	\$5,826 (72)	\$1,932 (86)	\$5,200 (358)	low n	\$2,348 (484)	low n
Upper Middle Income Quartile	\$6,553 (122)	\$6,072 (100)	\$2,058 (125)	\$5,047 (384)	low n	\$2,433 (423)	low n
Highest Income Quartile	\$7,151 (145)	\$6,829 (118)	low n	\$4,670 (380)	low n	\$3,515 (702)	low n
Total Observations	6,670	6,323	683	978	55	126	634

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Standard errors are presented in parenthesis. Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column. “Low n” appears where the number of valid cases is too small to produce a reliable estimate.

**Table 3-6: Students Who Received Loans by Income Accounting for Attendance Pattern or Institution Type, 2003-04** (dollars)

	Attended Mostly Full-time		Attended a Public Four-Year		Attended a Private Four-Year		Attended a Public Two-Year	
	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan
Lowest Income Quartile	48.6	\$5,777 (78)	50.1	\$5,490 (69)	60.9	\$6,866 (238)	13.5	\$3,544 (142)
Lower Middle Income Quartile	51.2	\$5,901 (75)	52.3	\$5,720 (74)	64.1	\$6,914 (241)	16.2	\$3,552 (95)
Upper Middle Income Quartile	47.5	\$6,048 (101)	44.7	\$5,633 (96)	59.9	\$7,018 (195)	12.6	\$3,667 (115)
Highest Income Quartile	37.3	\$6,238 (105)	30.8	\$5,479 (112)	44.1	\$6,972 (216)	5.6	\$4,087 (239)

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed October 16, 2006.

Notes: Standard errors are presented in parenthesis. The average loan amounts are only for those who took out a loan.

**Table 3-7: Percentage of Undergraduate Students Receiving Loans by Race or Ethnicity, 2003–04**

	Total Loans (excl. PLUS)	Stafford Loans	Perkins Loans	Private (Alternative) Loans	State Loans	Institutional Loans	PLUS Loans
White	35.2	33.5	3.8	5.5	0.4	0.7	3.8
Black or African American	43.1	41.6	3.4	4.2	0.2	0.8	2.4
Hispanic or Latino	29.8	27.9	2.5	4.7	0.1	0.6	2.3
Asian	24.8	21.7	4.7	4.5	0.2	0.7	2.5
American Indian or Alaska Native	32.4	30.9	2.5	4.1	0.6	0.3	0.3
Native Hawaiian / other Pac. Islander	26.8	25.4	1.8	4.9	0.2	0.4	3.8
Other	35.6	33.3	3.9	6.2	0.1	0.4	3.5
More than one race	34.9	33.3	4.0	5.7	0.5	0.4	4.4
Observations	19,054	19,054	19,054	19,054	19,054	19,054	19,054

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column.

**Table 3-8: Average Undergraduate Loan Amount by Race or Ethnicity, 2003–04** (dollars)

	Total Loans (excl. PLUS)	Stafford Loans	Perkins Loans	Private (Alternative) Loans	State Loans	Institutional Loans	PLUS Loans
White	\$5,861 (71)	\$4,852 (41)	\$1,898 (45)	\$6,124 (177)	\$4,033 (177)	\$2,945 (336)	\$9,138 (182)
Black or African American	\$5,69 (107)	\$5,155 (93)	\$2,042 (60)	\$4,793 (232)	low n	\$3,388 (668)	\$8,612 (504)
Hispanic or Latino	\$5,619 (120)	\$4,862 (91)	\$1,969 (113)	\$5,429 (293)	low n	\$1,628 (195)	\$8,582 (459)
Asian	\$5,899 (204)	\$4,833 (124)	\$2,081 (108)	\$6,294 (684)	low n	\$2,633 (524)	\$9,341 (659)
American Indian or Alaska Native	\$6,011 (357)	\$5,319 (242)	low n	\$5,122 (1,038)	low n	low n	low n
Native Hawaiian / other Pac. Islander	\$6,336 (528)	\$5,238 (389)	low n	low n	low n	low n	low n
Other	\$5,949 (291)	\$4,907 (177)	\$2,278 (200)	\$6,027 (1,072)	low n	low n	\$7,382 (825)
More than one race	\$6,099 (277)	\$4,825 (165)	\$2,050 (139)	\$7,019 (737)	low n	low n	\$9,311 (915)
Observations	6,670	6,323	683	978	55	126	634

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed April 6, 2006.

Notes: Standard errors are presented in parenthesis. Stafford Loans include both subsidized and unsubsidized loans. Students may have multiple types of loans and so may be counted in more than one column. “Low n” appears where the number of valid cases is too small to produce a reliable estimate.



**Table 3-9: Students who Received Loans by Race or Ethnicity Accounting for Attendance Pattern or Institution Type, 2003–04 (dollars)**

	Attended Mostly Full-time		Attended a Public Four-Year		Attended a Private Four-Year		Attended a Public Two-Year	
	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan
White	46.6	\$5,971 (79)	44.0	\$5,609 (58)	55.8	\$7,054 (147)	12.7	\$3,684 (103)
Black or African American	56.0	\$5,906 (125)	57.4	\$6,023 (135)	66.3	\$6,606 (251)	17.0	\$3,524 (130)
Hispanic or Latino	42.1	\$5,870 (136)	41.3	\$5,055 (132)	50.1	\$6,251 (387)	7.1	\$3,250 (211)
Asian	32.9	\$5,937 (252)	33.1	\$5,073 (205)	49.2	\$7,178 (456)	4.4	\$3,888 (452)

	Attended Mostly Full-time		Attended a Public Four-Year		Attended a Private Four-Year		Attended a Public Two-Year	
	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan	Percent	Average Loan
White	46.6	\$5,971 (79)	44.0	\$5,609 (58)	55.8	\$7,054 (147)	12.7	\$3,684 (103)
Black or African American	56.0	\$5,906 (125)	57.4	\$6,023 (135)	66.3	\$6,606 (251)	17.0	\$3,524 (130)
Hispanic or Latino	42.1	\$5,870 (136)	41.3	\$5,055 (132)	50.1	\$6,251 (387)	7.1	\$3,250 (211)
Asian	32.9	\$5,937 (252)	33.1	\$5,073 (205)	49.2	\$7,178 (456)	4.4	\$3,888 (452)

Source: Calculations by the authors using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS), Online version 4.0, Accessed October 16, 2006.

Notes: Standard errors are presented in parenthesis. The average loan amounts are only for those who took out a loan.

**Table 3-10: Cumulative Average Amount Borrowed by Full-Year Undergraduates, 1992–93 to 2003–04** (nominal dollars)

	1992-93	1995-96	1999-00	2003-04	Change 1992-93 to 2003-04 Nominal Dollars	2003-04 dollars
<b>Public Two-Year</b>						
1st year undergraduates	\$2,784	\$3,553	\$5,139	\$5,717	105%	57%
2nd year undergraduates	\$3,087	\$4,535	\$6,874	\$8,296	169%	106%
<b>Public Four-Year</b>						
1st year undergraduates	\$3,780	\$3,813	\$6,111	\$6,158	63%	25%
2nd year undergraduates	\$5,378	\$5,958	\$9,929	\$9,505	77%	35%
3rd year undergraduates	\$6,591	\$8,506	\$13,880	\$14,083	114%	64%
4th year undergraduates	\$7,604	\$11,146	\$16,794	\$17,507	130%	76%
<b>Private Four-Year</b>						
1st year undergraduates	\$4,965	\$4,828	\$8,083	\$8,262	66%	27%
2nd year undergraduates	\$7,199	\$7,759	\$13,078	\$12,672	76%	35%
3rd year undergraduates	\$9,289	\$11,026	\$19,730	\$18,385	98%	52%
4th year undergraduates	\$10,676	\$14,157	\$22,568	\$21,946	106%	57%

Source: Calculations using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS).

Notes: Includes all loans ever borrowed for undergraduate education. Does not include parent PLUS Loans. Data were collected from the National Student Loan Data System (NSLDS). However, because students may also borrow from other sources, self-reported and institutional information were also used. Sample weights were used to reflect the total population of undergraduates.

**Table 3-11: Cumulative Average Amount Borrowed through PLUS Loans for Full-Year Undergraduates, 1992–93 to 2003–4** (nominal dollars)

	1992-93	1995-96	1999-00	2003-04	Change 1992-93 to 2003-04 Nominal dollars	2003-04 dollars
<b>Public Four-Year</b>						
1 <sup>st</sup> year undergraduates	\$6,303	\$5,853	\$7,704	\$9,260	47%	13%
2nd year undergraduates	\$6,848	\$7,279	\$8,323	\$11,166	63%	25%
3 <sup>rd</sup> year undergraduates	\$6,482	\$7,712	\$11,074	\$13,518	109%	60%
4 <sup>th</sup> year undergraduates	\$5,924	\$6,892	\$10,587	\$12,659	114%	64%
<b>Private Four-Year</b>						
1 <sup>st</sup> year undergraduates	\$10,084	\$7,853	\$9,987	\$12,887	28%	-2%
2nd year undergraduates	\$9,361	\$10,754	\$14,034	\$16,780	79%	37%
3 <sup>rd</sup> year undergraduates	\$7,664	\$12,503	\$15,117	\$18,985	148%	90%
4 <sup>th</sup> year undergraduates	\$7,005	\$10,367	\$19,263	\$19,468	178%	113%

Source: Calculations using the National Center for Education Statistics, 2004 National Postsecondary Student Aid Survey (NPSAS) Data Analysis System (DAS).

Notes: Indicates the cumulative amount of PLUS loans ever borrowed by parents for the student. It is based primarily on NSLDS loan history data. Sample weights were used to reflect the total population of undergraduates