Private Loan Guide

Many students and their families need additional funding above and beyond what is described in the award letter. One option is private or alternative loans. Use this guide to better understand private loans.

Consider Federal Student Aid First

- **Federal grants**, such as Pell Grants, do not need to be repaid
- **Federal loans**, such as Stafford and PLUS loans, carry fixed interest rates and flexible repayment terms

Basics of Private, Non-Federal Student Loans

- **Help cover the "financing gap"** after all other sources of financial aid and savings have been tapped ("last resort" loan)
- **Generally carry variable interest rates (with no cap)** so expect rates to rise above the starting rate that you are offered.
- **Lenders typically offer wide range of interest rates (e.g. 4% to 10%)** and use an evaluation of the borrower's credit to determine specific rates.
- **Most lenders allow for repayment to be deferred** until borrower completes program or drops out of school. Interest accrues on the loan during this in-school period.
- **Repayment terms can vary significantly by lender** with some requiring in-school repayment while others allow repayment to be delayed until graduation. Length of repayment can also vary from five to thirty years.
- **Borrower must complete a self-certification form in order for loan to be funded.** This is a new requirement that could lead your loan to be delayed if the form is not completed.

Tips on Shopping For A Private Student Loan

Apply for loans from a variety of lenders (ideally 3-4) within a 30 day period.

Why? *Student Lending Analytics research conducted in May 2010 found that interest rates varied by 6% for both borrowers with good and excellent credit. Fair Isaac, creator of the FICO score, noted recently that applying for student loans within a 30 day period would not harm a borrower's credit score.*

When comparing private loan alternatives, interest rates are king.

Why? *Since private student loans do not have any prepayment penalties, borrowers can choose to pay their loans back sooner than the standard term on their loan. Don't be fooled by lenders advertising lower loan costs because of a shorter loan term. A borrower should take the loan with the lowest interest rate and pay back their loan as soon as possible to minimize finance charges.*

Enlist a creditworthy cosigner (a parent, family friend or relative) to your cause.

Why? *Lenders have tightened up their standards with many now requiring a cosigner on 80-90% of their student loans. Having a creditworthy cosigner may also lower the interest rate that you receive on the loan.*

Read the fine print.

Why? *While disclosure of loan terms has improved due to new Federal Reserve regulations, there is no substitute for reading the promissory note, which describes the terms and conditions on your loan. Keep your eye on fees as well as any events that might trigger an increase in your interest rates.*

Don't fall into the most two most common traps of 1) selecting a lender based on the familiarity of their brand name and 2) only applying to one lender.

Why? *Research conducted by the Federal Reserve found that most borrowers selected a private student loan lender based on their brand name and did not complete any comparison shopping. Just think that extra fifteen minutes to complete another loan application can save you thousands of dollars over the life of your loan.*

Managing Your Private Student Loans

Consider making payments or paying the interest on your private student loan while you are still in-school.

Why? *While most lenders will allow you to defer paying off your loan until you graduate, making payments while you are in school can not only save you finance charges but also will help you establish a positive credit history. Paying the interest may qualify you for a lower interest rate.*

Keep your private student loan borrowing to a minimum.

Why? *Taking out a private loan generally means that you have taken out your maximum in federal loans ($31,000 for dependent undergraduates and $57,500 for independent undergraduates) and heightens your risk of over-borrowing. One rule of thumb holds that a student's total borrowings (both federal and private student loans) should not exceed the average starting salary for graduates in your course of study.*

Warning: Remember that private student loans are generally not dischargeable in bankruptcy so you will need to pay this loan back.

By: Tim Ranzetta, Founder & President of Student Lending Analytics

Avoiding Student Loan Default: Tips & Advice

Loan default is when you fail to make regular payments on your student loan for 360 days. Defaulting on your loan is a violation of your loan agreement and your loan provider has the right to demand immediate payment of the entire loan. Defaulting on a student loan can have a very negative impact on your finances. Smart planning can help keep your financial future secure.

What are the short- and long-term effects of defaulting?

Short Term

- Garnished wages: Up to 15% of your wages may be taken out of your paycheck to pay your debt.
- Offset income tax refunds.
- Collection agency involvement: You may get sent to collections, have to pay additional interest and fees (late, and attorney) and collection costs (up to 25% of the balance).

Long Term

- Damaged credit rating: Your default will remain on your credit report for up to seven years and will negatively impact your chances of being approved for a credit card, car or home loan. It can even affect your ability to rent an apartment or get a job!
- Lost eligibility for further federal aid: Defaulting on your current loan may jeopardize your eligibility to receive future aid.

How do I avoid default?

Managing your student loan payments successfully will help you avoid financial problems and provide you with peace of mind regarding your financial future. Consider making student loan payments while in school to reduce the amount you have to pay back after graduation. If that's not possible, follow these tips:

- Always pay your loans before the due date.
- Alert your lender if you are having trouble making payments or know a payment will be late. You will lose eligibility for deferments and forbearances if you default first.
- Streamline repayment by consolidating your loans or using unified billing to get a single monthly payment.
- Keep your loan documents in one place so you won't forget your due dates.
- Make copies of canceled checks and any forms you sign.
- Explore repayment options to find the right one for you.
- Borrow only the amount you need and can pay back.
- Try to avoid using credit cards if possible. If you use credit cards, pay the entire balance each month. Maintain a budget that is within your monthly income.

If you're having trouble making payments, don't wait to notify your lender! You may have to pay the entire loan amount (principal and interest) if you don't make your payments.

Repayment options

Another way to avoid default is to explore repayment options. Repayment plans are designed to help alleviate some of the stress of making huge monthly payments. To learn about your options, call your lender or loan holder. Don't wait until you are behind in your payments.

Many of the options or plans available to you may include:

- Standard Repayment Plan: A set amount of money is paid every month for a fixed period of time up to 10 years.
- Graduated Repayment Plan: Your monthly payments start small and gradually increase every two years until the loan is paid off. Repayment period may vary between 12 and 30 years
- Extended Repayment Plan: A set amount of money is paid with an extended repayment period between 12 to 30 years based on the total amount of debt.
- Income-Based Plan: Payments are based on the borrower's discretionary income and not the total amount borrowed. Monthly payments are adjusted each year as the borrower's income changes. The term is up to 25 years.
- Loan Consolidation: Combines all of your loans into one monthly fee. The new loan will have new terms, and may have an extended repayment period of up to 30 years. Keep in mind that a longer loan term means that you will pay more in interest over the life of the loan. For example, increasing the loan term from 10 years to 20 years may cut the monthly payment by about one third, but it will more than double the total interest paid over the life of the loan.

Visit http://www.finaid.org/loans/repayment.phtml for more on loan repayment plans.

I am currently in default, what should do?

To get out of default you should make arrangements with your loan holder. You can work out a one-time loan rehabilitation agreement with the loan company that consists of a reasonable and affordable payment plan. After making (9) voluntary on-time payments over a ten month period your loan will be rehabilitated and the default status of all previously defaulted loans will be removed. All national credit bureaus will remove the default status from your credit reports and you will be eligible for the same benefits before the loan defaulted.