



## Private Loan Guide

### Private loan basics

Private student loans are non-federal loans.

**You should only borrow private loans to fund your education as a last resort.** Do all of the following before you consider borrowing a private loan:

- **Apply for free, federal and state financial aid programs:**
  - Scholarships
  - Grants
  - Work-study
- If you still need money for educational expenses, **borrow only what you need from the federal student loan programs:**
  - Federal Perkins Loans
  - Direct Subsidized or Unsubsidized Loans
  - Direct PLUS Loans:
    - For graduate and professional students
    - For parents
  - Health Professions Student Loans
  - Federal Nursing Student Loans

If your education expenses are higher than the amount of free financial aid and federal student loans you can receive, then carefully consider private loans.

Because lenders, such as banks, fund and administer private loans, each has its own unique terms and conditions. The following information will provide some general guidance, but you must **obtain details about specific loans from the lender**. Be sure you understand the **terms** of the loan and **your responsibility** for repaying it.

**Fast fact:** You may only use student loans (federal or private) for educational expenses, such as tuition and fees, books and supplies, room and board, and transportation.

**Always borrow conservatively!** You will have to repay the loan. Develop a budget you can afford and stick with it. This will keep you from accumulating large debts and help you manage

your student loan payments. Contact your school's Financial Aid Office or visit the Mapping Your Future website ([MappingYourFuture.org](http://MappingYourFuture.org)) for personal financial planning information.

You may reduce or cancel your loan at any time before the loan is disbursed. If your school receives your loan funds electronically, they will notify you when they apply these funds to your school account.

### **Withdrawals and refunds**

It is very important that you contact the appropriate offices at your school (such as the financial aid office, registrar, and business office) if you decide to withdraw prior to completing your program of study.

If you withdraw, the school uses a specific formula to calculate how much financial aid you've earned to that point. If you received more assistance than you earned, your school must return excess funds in a specific order. Contact your school if you want more information about their published refund policy.

### **Notification to your lender**

If you change your name, address, telephone number, and/or Social Security number, you must notify your lender. Also, notify them if you fail to enroll at least half time, withdraw from school, transfer to another school, or graduate from your program of study.

### **For more information about your federal student loan debt**

You may access the National Student Loan Data System (NSLDS) online at [www.nsls.ed.gov](http://www.nsls.ed.gov) or call toll-free (800) 999-8219. You will need an FSA ID to view your loan history. Please note that this website does not list alternative or private student loans.

### **Private versus federal loans**

You should exhaust all of your scholarship and grant options before looking toward borrowing a loan. If you still need to borrow money to pay for college, try to obtain federal student loans first:

- Federal student loans usually have lower interest rates and better repayment terms and options.
- To apply for federal financial aid (including loans), you must complete the FAFSA (Free Application for Federal Student Aid) each year.
  - Schools can use the information from your FAFSA to determine eligibility for financial aid (grants, scholarships, and work opportunities) from the state and the school itself.
  - While completing the FAFSA might seem time consuming or challenging, you can get free assistance while doing so—and save lots of money.

There are several federal student loan programs, each with their own terms. Here is a general comparison between federal and private loans, and you can get details about the federal loans at <http://mappingyourfuture.org/paying/studentloans.cfm>.

	<b>Federal student loan</b>	<b>Private loan</b>
<b>Eligibility</b>	You usually aren't required to have a co-signer, even if you don't have a credit history or have experienced credit problems in the past.	Eligibility is almost always based on your credit history. You may be required to have a co-signer who will be equally responsible for repaying the loan, if applicable.
<b>Repayment</b>	<p>In general, you are not required to make payments while you are in school. For some loan types, you also aren't required to make payments during a grace period (time after you stop attending school at least half time).</p> <ul style="list-style-type: none"> <li>• For some programs, the government pays the interest during this time.</li> <li>• If the government does not pay interest, you can make payments, reducing the total amount of money you will pay.</li> </ul> <p>You have a variety of payment plans for most student loans, plus options like deferment (a period of time during which you do not have to make payments and during which the government pays the interest on some loans) and forbearance (a way to temporarily lower or postpone your payments).</p>	<p>In many cases, the lender won't require you to make payments while you are in school. However, interest will accrue during this time.</p> <p>Some loans will include a grace period after you stop attending school at least half time, during which time interest will accrue.</p> <p>You will have to negotiate repayment terms with your lender. Most often, the lender sets the terms when you apply for the loan; however, you might have some flexibility once you enter repayment.</p>
<b>Interest</b>	Typically, interest rates are fixed. In most cases, they are lower than private loans.	Most private loans have a variable interest rate that changes every quarter, with no cap – or a very high cap. The lender might base your interest rate on your credit history.

**As you can see, there are some key differences in these programs.** Be sure to read and understand the fine print before signing for any loan!

## Eligibility

Your lender will determine your eligibility for private loans based on your credit history and your co-signer's history, if applicable.

- You might require a co-signer if you have little or no credit history or a negative history. Some lenders require a co-signer regardless of your credit history.
- Before applying, you should first check your credit report for any discrepancies. See <http://mappingyourfuture.org/money/creditreport.cfm> for more information on credit reports and how to dispute incorrect information.
- Most private loans require that you attend school at least half time.

When applying for the loan, you will have to complete a Private Education Loan Applicant Self-Certification Form. The Self-Certification Form is a U.S. Department of Education form that helps ensure that consistent information is gathered on private loan borrowers. The form includes your cost of attendance and estimated financial assistance, as well as your name and address information. Basic information about borrowing private loans also is included on the form to help you make a good borrowing decision.

**Co-signers have as much responsibility as you, the original borrower.** He or she is required to repay the loan if you do not. Read the fine print in the private loan information to determine if there is any clause for forgiveness for any reason. Some private loans don't have forgiveness in the case of death, so even if you die, your co-signer will be responsible for the debt.

## Choosing a lender and loan

You should carefully review the interest rates, fees, and repayment terms for private loans to find the one that best fits your needs. Talk to each lender and ask detailed questions, and be aware that some lenders have more than one private loan product.

If you aren't sure where to start, talk to your school's financial aid staff. They might have a list of lenders that have helped students in the past. You also can talk to your own bank or credit union.

### Interest rates

- Many private loans have a variable interest rate that changes every quarter, with no limit (often called "cap") - or a very high limit.
- The lender might base the interest rate on your credit score.

## Fees

Some lenders charge fees on private loans. These fees might be:

- mandatory for all borrowers or
- based on your credit history.

**Fees can significantly increase the cost of the loan.** A loan with a relatively low interest rate but high fees might actually cost you more than a loan with a higher interest rate but without fees.

**Quick tip:** 3 to 4 percent in up-front fees is about the same as a 1 percent higher interest rate.

## Borrower benefits

Some private loan lenders offer borrower benefits. One benefit your lender might offer is a decrease in your interest rate if you make on-time payments via direct debit.

While benefits can save you some money, be sure to compare the expected benefit with the fees and interest rates. Also, your lender might have the right to reduce or eliminate borrower benefits.

## Disclosure

Private loan lenders must disclose your loan's costs and monthly payments to you three times:

- When you apply
- When they approve you for the loan if they adjusted costs based on your credit history
- When the money is disbursed

Be sure to review your notices carefully, and ask the lender if you have questions.

## Repayment

You must repay your loans, even if you:

- do not complete your education;
- do not complete your program within the regular completion time for that program;
- are not employed upon completion of your studies; or
- feel that the education you received did not meet your expectations.

Generally, federal and private student loans are not cancelled or discharged due to bankruptcy.

Most lenders give you 10 to 25 years to repay private loans.

Here are some other loan facts:

- Interest accrues upon disbursement and typically continues to accrue while you are in school and during your grace period, if applicable. The lender will capitalize the interest, adding it to your principal balance, at specified intervals.
- Typically, you don't have to make payments while you're enrolled in school at least half time.
- Private loans generally don't have deferments or forbearance (permission to postpone or lower payments).
- You can't consolidate private loans in a Direct Consolidation Loan.

**Quick tip:**

Pay the interest accruing on your private loans while you are in school and during the grace period (if applicable). Unpaid interest is capitalized (added to your principal balance), which means you'll have a higher principal balance and will pay more over the life of the loan.

**Monthly payment amount**

Below is a chart of *example* monthly payment amounts at varying interest rates, based on a 15-year repayment plan. Many private loan lenders require payments of at least \$50.

If you have a longer period of time to repay your loan, your payment amount will be less; however, you will pay more in the end.

<b>Amount Borrowed</b>	<b>6% Interest</b>	<b>8% Interest</b>	<b>10% Interest</b>	<b>12% Interest</b>	<b>14% Interest</b>
1,500	\$50	\$50	\$50	\$50	\$50
3,500	\$50	\$50	\$50	\$50	\$50
5,500	\$50	\$52.56	\$59.10	\$66.01	\$73.25
6,500	\$54.85	\$62.12	\$69.85	\$78.01	\$86.56
7,500	\$63.29	\$71.67	\$80.60	\$90.01	\$99.88
8,500	\$71.73	\$81.23	\$91.34	\$102.01	\$113.20
10,500	\$88.60	\$100.34	\$112.83	\$126.02	\$139.83
12,500	\$105.48	\$119.46	\$134.33	\$150.02	\$166.47
20,500	\$172.99	\$195.91	\$220.29	\$246.03	\$273.01
40,000	\$337.54	\$382.26	\$429.84	\$480.07	\$532.70
57,500	\$485.22	\$549.50	\$617.90	\$690.10	\$765.75
80,000	\$675.09	\$764.52	\$859.68	\$960.13	\$1,065.39
138,500	\$1,168.74	\$1,323.58	\$1,488.33	\$1,662.23	\$1,844.46
224,000	\$1,890.24	\$2,140.66	\$2,407.12	\$2,688.38	\$2,983.10

## Servicers and loan sales

- Some lenders hire servicers to maintain student loan records and files. The servicer becomes responsible for processing payments or deferments, among other duties.
- Some lenders sell loans. The creditor (usually a bank or another type of lender) that buys your loan will take over the debt and collect from you.
- It is the student's responsibility to know who the loan holder is and to ensure that payments are sent to the correct address.

## Solutions for repayment terms

Even people who budget and manage their money responsibly can have difficulty making payments sometimes. If you have problems repaying your private student loan, don't be embarrassed—call your lender and ask what they can do to help you.

While private loans generally don't have deferments or forbearance (permission to postpone or lower payments), they might be able to work with you for a period of time.

## Delinquency and default

If you fail to make payments, your loan is delinquent. If you fail to make payments for a specified period of time per your loan terms, your loan is in default. **Defaulting on a private student loan can result in consequences for you AND your co-signer (if applicable):**

- Damage to your credit rating, which could impact your ability to borrow (for example, you might be denied a car loan)
- Referral of your account to a collection agency
- Collection costs
- Civil lawsuit, including court costs and legal expenses (the court also might approve a garnishment of your wages)

There are three basic guidelines to follow to **avoid delinquency and default:**

- Inform your lender if you change your name, mailing address, telephone, or Social Security number. This will ensure they can mail correspondence to you.
  - Read and keep all documents you receive pertaining to your loan and be sure to understand your loan amount and the payments that will be required.
  - If you're experiencing financial hardship and are unable to make your payments, call your lender immediately.
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