

# Private Student Loans

## Selecting a Lender



Private education loans are available to students and families who need additional funding to fill the gap between the cost of an education and other sources of financial aid. As a general rule, you should only use private loans after exhausting the full range of federal and state aid available, as determined by your college or university financial aid office. To apply for federal and lowa-funded programs, make sure to file a Free Application for Federal Student Aid (FAFSA) and the Iowa Financial Aid Application every year as soon as possible after January 1.

If you find you still need to borrow a private education loan, do your research to find the right loan for you. Start by contacting your college financial aid office to see if they maintain a list of suggested lenders or a list of lenders who have made loans to students at your college in the past. These lists can be a starting point for you, but are not exclusive and you are not required to choose from them. Also, colleges and universities are not required to provide students with lender information and some choose not to make referrals. You can also try a web-based search to investigate lender options or consult your bank or credit union. Below are a few tips to keep in mind when researching and comparing lenders and loan programs.

### The Application Process

- Is there an enrollment requirement? Some may require you to be enrolled at least half-time.
- How much should you borrow? Private education loans have to be repaid, with interest. Borrow only what you need. Remember that you are borrowing to pay for an education, not a lifestyle.
- Estimate monthly payments associated with borrowing different loan amounts to see if the payments will be reasonable after graduation. [You can find a loan repayment calculator in the student loan section of the Iowa College Aid website [www.iowaCollegeAid.gov/content/student-loan](http://www.iowaCollegeAid.gov/content/student-loan)]
- Can you apply online? If so, will you have future access to an online account?
- What documents are needed to complete the application? Some private lenders may require proof of citizenship as well as documentation of income.
- Remember to keep copies of all private loan application forms and supporting documents, as well as lender contact and loan account information.

### Cosigners

- Do you have a good credit rating? Are you required to have a cosigner? Applying with a cosigner will often make you eligible for a loan with a lower interest rate and lower fees. If you are an international student, it may be required that you apply with a credit-worthy U.S. Citizen or permanent resident cosigner.
- Do you know someone who would be willing to cosign for you?
- Can a cosigner ever be removed from a loan? What happens to the loan if the cosigner were to pass away before the loan is repaid?

## Iowa College Student Aid Commission

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## Interest Rates

- What loans offer the best interest rates? What interest rate will you qualify for? Some lenders advertise very low interest rates, but only those with the best credit qualify for them.
- Is the interest rate fixed [i.e., the interest rate remains the same until you pay it off] or variable? If the rate is variable, how often will it change and how high can it go?
- When does the interest begin to accrue? How often will the interest capitalize (be added to your principal loan amount).

## Loan Fees

- Is there a fee associated with the loan, and if so, how much is it? Remember- applying with a cosigner may reduce the amount of loan fees charged.
- How will the fees be collected? Are they charged to you or deducted directly from the loan funds prior to disbursement to your school?
- In addition to loan fees and interest rates, consider the Annual Percentage Rate (APR), which is a broader measure of the cost of borrowing the loan. It reflects not only the interest rate, but fees, capitalization and certain other charges you may have to pay, expressed as an annual rate.

## Repayment

- Are payments required while you're in school, or is it deferred until after graduation? If it is deferred until after graduation, is there a grace period?
- What are the repayment options and do any of them take your current income into consideration when the monthly payment amount is determined? What is the total amount of interest paid with each option?
- Are there loan deferment or discharge options? What are your loan responsibilities if you go back to school, experience economic hardship, lose your job or become totally and permanently disabled or die?
- Are there any loan repayment incentives? Some lenders may offer incentives for on-time payments or for an auto-debit agreement.
- Are loan cancellation and forgiveness programs available? If so, be sure they are listed in your promissory note.

## Late Payments

- When is a payment considered late and what are the penalties?
- How will a late payment affect your loan balance, interest rate and credit rating?
- At what point in delinquency is the loan considered to be in default? Federal loans enter default after the loan goes 270 days past due. Most private education loans default much sooner.
- What are the consequences if your loan goes into default?

## Customer Service

- What are the lender's hours of service and can you quickly reach a representative?
- Does the lender provide life-of-loan servicing, or is there a possibility your loans could be sold?
- Does the lender provide online account access and payment options?

## Word of Mouth

- Ask for recommendations! What have your family and friends used in the past? Learn about the good and bad experiences that others have had with particular lenders.
- Use the internet to search for the public's view on lenders and their products.
- Check with public advocacy agencies, like the consumer protection division of your state attorney general's office and with the Better Business Bureau to see what they know about a lender you are considering.

Choosing a private loan lender is ultimately your decision to make. Be sure you have explored all other forms of financial aid before borrowing a private loan and that you research all private loan options thoroughly before making your final decision.

