Student Lending Analytics
2009 SLA Guide to Private (or Alternative) Loans

#1: EXHAUST ALL OTHER SOURCES OF FUNDING BEFORE LOOKING FOR A PRIVATE (LAST RESORT) LOAN. Complete the FAFSA. Be sure to pursue scholarships, federal grants, work-study, and federal loan programs (Stafford, PLUS and Grad PLUS) before applying for a private loan. Why? Federal loans typically carry lower fixed interest rates and they offer more flexible repayment options.

- For a useful comparison of PLUS and Private Loans, see #3.

#2. Find a co-signer…you will need it. Find a creditworthy co-signer (for example, a parent, grandparent, aunt, uncle or other relative) to increase the probability of having your loan approved while ensuring that you receive the lowest interest rate possible. Some lenders require a co-signer while others indicate that over 90% of their loans have a co-signer on the application. Without a cosigner, a private loan will be extremely difficult to obtain and even if you are lucky enough to be approved, you will likely pay dearly for this loan.

#3. Evaluate your alternatives; it can save you thousands. Review your school's list of preferred private loan lenders (if available). Student Lending Analytics also provides the SLA Student Loan Ratings to assist you in finding the best private student loan. Be aware that obtaining a private loan requires credit approval and that certain lenders may restrict their lending activities to certain types of institutions or regional areas. Check your eligibility with lenders before applying. **After doing your homework, complete applications for 3-4 lenders to provide you with some choices.**

- Read about Fair Isaac's new policy change to learn about how shopping for loans over a 30 day period will protect your credit scores.
- Read "Why Shopping For Student Loans Can Make A Big Difference!" to learn why it makes sense to comparison shop.
- Once you have 3-4 choices, use a payment calculator, input interest rates, fees and loan term to calculate which loan will work best for you.

#4. Your local credit union may be worth a shot. With conservative financial management, credit unions have largely avoided the carnage that has afflicted the U.S. banking system. If you are a member of a credit union or belong to an affinity group that would qualify you for membership in a credit union, check out their private student loan offerings. Many universities have long-standing relationships with credit unions too.

#5. Certain states have private loan programs you may want to consider. Be aware that certain states, such as Alaska, Connecticut, Hawaii, Maine, Massachusetts, Minnesota, New Jersey, North Carolina, North Dakota, Texas, Vermont offer private loans to state residents and/or those attending schools in those states. Be sure to evaluate your state program's website for eligibility, interest rates and loan terms. Compare these state programs with other alternatives. DO NOT assume because they are associated with the state that they are automatically the best private loan. Be aware that many of these programs have limited funds available, so be sure to apply early.

#6. **Understand thy interest rate.** Interest rates on private student loans consist of an index (LIBOR or Prime Rate) and a Margin (e.g. +5%). To determine the starting interest rate on your loan, determine the lender's current Index and add the Margin. **Be aware that almost all private loans are variable rate loans, which means that rates are adjusted monthly or quarterly and will go UP over the life of the loan.** If history is any guide, expect that the **average interest rate** on your loan will be 2 – 3% higher than your starting interest rate.

- Don't sign the promissory note until you know the interest rate and fees on your loan.

#7. Select the repayment option that your financial situation allows for:

- Want to save thousands of dollars in loan costs? **Make interest payments on your loan while in school. Notify the lender that you would like to receive statements while in school to make these payments.**
- Don't want to (or cannot) make payments while in school? **Be sure that your lender (not all do) offers an in-school deferment option, which will allow you to postpone payments until after you graduate.**
- Want to have the lowest monthly payment? **Know the standard loan term offered by the lender. The longer the term, the lower the monthly payment but the more interest that you will pay over the life of the loan. Remember, despite having standard terms of 15-25 years, you always have the option to pay off your loan sooner without penalty.**

#8. Once you take out this private loan, be aware that IT WILL NEED TO BE PAID BACK. Like federal student loans, private loans may not be dischargeable in bankruptcy so be sure that you borrow responsibly and not beyond what you can reasonably expect to pay back.

#9. **Sweat the details…read the Promissory Note**. Lurking inside that document could be a clause that allows a lender to raise your interest rates by 2-3% if you are late on one payment.

- Read SLA 2009 Student Loan Series: The Promissory Note for important factors to consider with your private loan.

#10. **Having second thoughts…you can always cancel the loan if you move quickly enough!**

- Review the Promissory Note closely to determine the loan cancellation terms, in terms of the timing and the steps required to cancel the loan.