



Fact Sheet: Choosing the Right Education Loan and Lender

Borrowing Wisely

Many students and parents find it necessary to borrow money to help pay for college. If you plan to borrow money, it is important to choose the right type of education loan and lender. It is very important to borrow wisely -- and to borrow as little as possible without sacrificing the scope or quality of your education. Every dollar you borrow now must be paid back later with interest which will have a definite impact on your life after college.

Think about it – if you borrow \$2,500 a semester during four years of college, what you pay back could be nearly \$250 per month for 10 years. Plus you'll be paying nearly \$10,000 additional dollars in interest. In practical terms, you'll be paying a \$250 per month until you're 32 years old. Imagine if you borrowed \$5,000 per semester – a \$500 per month loan payment could make a real difference in what you can afford to buy after graduation. The debts you have and how you handle them influence your credit history which is used to determine the decision you'll get on future loans.

Choosing the Right Loan

There are different types of education loans and which one you pick will make a real difference. Federal loans are lower interest than private loans and usually offer extra ways to reduce the amount you pay. The repayment period for federal student loans doesn't start until after you leave college and gives you at least 10 years to pay. There are federal loans for your parents too. Two good reminders – borrow federal loans first and borrow only what you really need for college.

Choosing the Right Lender

Selecting the right lender for your education loan is important too. You probably realize by now that a loan is something you will carry with you for quite a while – typically 10 years or more. That's why you should ask prospective lenders these questions:

- Is the lender for-profit or nonprofit?
- How long has the lender been making education loans?
- Do they offer federal and alternative (or private) loans or only alternative loans?
- What are the interest rates on their loans? Are they the same for every borrower?
- Is the lender focus only on education? Do they provide information on college access, scholarships, grants, and loans?
- Is the lender affiliated your state?

- Will the lender make and service your loan or will it be sold or transferred for service once it is made?
- How easy is it to access the lender by web, phone or in-person when you have questions?
- At the time your loan is being made, does the lender offer any credits or fee waivers to save you money? If so, what are they and how much will you save?
- During repayment, does the lender offer ways to reduce your interest rate or principal if you make your payments on time? If so, how much?
- During repayment, does the lender offer to reduce your interest rate if you use automatic draft and electronic statements? If so, how much?
- Are you guaranteed to keep the borrower benefits originally received on your loan as long as you continue to meet eligibility requirements?
- What will be the total cost of your loan with the lender?

If you have sizable loans, even a one-half percentage point reduction will save you significant money over the life of the loan. Also, ask how often the interest will be capitalized, or added to the remaining amount of the loan. When interest is capitalized, you end up paying interest on your interest, as well as on the principal amount of the loan. Frequent capitalizations mean you pay more interest over the life of the loan.

Flexible repayment plans are another plus to look for when choosing a lender. With a Standard repayment plan, you'll pay the same amount every month. With a graduated repayment plan, you'll pay a lower monthly amount at first and may end up paying more in interest, but the idea is that you spend less per month early in your career when you are earning less money, and pay more later on, when you can afford it. There are also income-based repayment plans that base your repayment schedule on your yearly income. Income-based plans, though they may result in smaller (and more manageable) monthly payments, usually increase the amount of interest you pay over the life of the loan.

If you take out several education loans, you may be able to consolidate them into one loan, with one (usually averaged) interest rate and a longer repayment schedule. Again, loan consolidation can considerably ease your repayment schedule, but it will cost you more in the long run. If you are worried about meeting your monthly payment, ask about loan consolidation. Always keep in touch with your lender. A good lender is there to help you.

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