

Selecting a Private Loan Lender

Student loan choices can make a real difference in both cost and convenience.

Once your federal loan limits are maxed out, private loans could be a sensible choice – as long as you pick the right one. Private loans are from private lenders, banks, colleges, universities, and other lenders that do not rely on the federal government. Before choosing *any* education loan, make sure you can answer the following questions:



- Is the loan a federal or a private loan? Federal loans should be the first choice.
- What is the loan interest rate? Is it the same for every borrower? Private loan interest rates typically vary depending on the borrower and cosigner credit score.
- Will you be required to make loan payments or pay interest while you are enrolled? Paying interest while in school is a good idea, but ideally it should not be a requirement.
- If you do not pay interest while enrolled, how often will interest be capitalized or added to the remaining principal on your loan? The more frequent the capitalization, the more expensive the loan is likely to be (provided you are comparing with another loan with the same interest rate).
- Will the lender also be the ongoing loan servicer or will the loan be sold or transferred for service once it is made? Who will your servicer be?
- How easy is it to access the lender and servicer by web, phone or in-person? If you have questions, you need an easy way to get answers.
- At the time your loan is being made, are there any credits or fee waivers to save you money? If so, what are they and how do you qualify? Lenders often reduce interest rates after a certain number of payments, but “up front” discounts are a sure thing.
- During repayment, are there ways to reduce your interest rate or principal if you make your payments on time or pay by automatic draft? If so, by how much?
- Are you guaranteed to keep the borrower benefits originally received on your loan as long as you continue to meet eligibility requirements? Is there a “universal default” clause in your agreement that allows a private lender to raise your interest rates if you fall behind on other, unrelated debt? Universal default is now illegal for credit cards, but not private student loans.
- What repayment options are available? Can loan repayment be deferred for graduate school? Are there penalties for pre-paying the loan?
- What will be the total cost of your loan if paid as agreed? In other words, if you make all the payments on time for the entire term of the loan (10 years, etc.), what will it cost? This is the “bottom line” price.

If you have sizable loans, even a one-quarter percentage point reduction will save you money over the life of the loan.