Things to consider when determining if a private student loan is right for you

- **If possible, shop around for loan terms.**
- **Read and understand the contract before you sign.**
- **Ask questions before you sign if you do not clearly understand something.**
- **Know how contract disputes will be settled (civil court versus binding arbitration).**
- **Understand what may happen should you default on the loan (fail to make the contracted payments):**
  - ◊ may harm your credit rating
  - ◊ may harm your co-signer's credit rating
  - ◊ may harm your ability to obtain future credit (for cars, appliances, other student loans, homes, etc.)
  - ◊ you may get sued for the entire amount of the loan, payable immediately
  - ◊ you may become ineligible for deferments or forbearances
  - ◊ you may be held liable for the costs associated with collecting your loan, including court costs and attorney fees

What loans cost when origination fees and interest accumulation are added to the original loan amount.

What a Private Student Loan Costs

(Interest Costs for a 15-year, $10,000 Loan Based on Different Interest Rates)

Interest Rate	Original Loan Amount	Origination Fee(10%)	Total Paid Interest	Final Cost
8% annual interest	$10,000	$1,000	$7,201	$18,201
12% annual interest	$10,000	$1,000	$11,603	$22,603
18% annual interest	$10,000	$1,000	$18,987	$29,987

Note: Typically, private lenders allow 10 to 20 years for repayment. The longer the repayment period, the more the loan will cost.

MHEC

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MHEC'S GUIDE TO

Understanding Private (Alternative) Student Loans

If the cost of your postsecondary education exceeds your personal funds and available federal and state financial aid, then a private student loan may be an alternative for you.

EDUCATE YOURSELF FIRST!

KNOW

what alternatives you have before you sign contracts that may require years of repayment.

EXPLORE

all types of federal and state financial assistance before committing to a private student loan.

What Are Private Student Loans?

- They are credit-based loans offered privately by banks or lending institutions with terms and conditions that vary from lender to lender.
- These loans are similar to private loans you might receive when you purchase a vehicle.
- Private student loans are **NOT** funded or guaranteed by the state or federal government.

What's the relationship between a school and a private lender?

Some schools contract or partner with specific private lending companies. This relationship allows private lenders to send the student's loan disbursements directly to the school.

The loan agreement signed at the school is a binding contract between the private lender and the student borrower and, once signed, the student has agreed to borrow and owe the lender, and not the school, the money.

Therefore, the student borrower is usually held responsible for repaying the private loan even if the student withdraws or is terminated, OR if the school closes. For that reason, it is especially important to know the school's published refund policy.

How much does a private student loan cost?

To calculate the total cost of a loan, add these three things together:

Original Loan Amount
Fees
+ Compounded Interest
Cost Of The Loan

Origination fees: Generally, origination fees range from 5% to 10% of the original loan amount, paid up-front. That means that a 7.5% origination fee for a $10,000 private student loan would amount to a $750 fee.

Service fees: These are charges for processing additional paperwork, usually changes in the loan for items like a deferment, forbearance or early repayment.

Interest: Interest is the ongoing fee that lenders charge you to use their money to pay for your education. The interest is a percentage of the outstanding (remaining) loan amount.

Since private loans are based on the student or co-signer's ability to repay the loan, interest rates are set according to the borrower's credit rating and the amount of the loan.

Chances are that if a borrower does not have a good credit rating, the loan's interest rate will be higher. Additionally, interest rates are usually higher for smaller loan amounts.

Historically, private student loan interest rates have ranged from 6.5% to over 18.0%, depending upon current loan rates, the borrower's credit rating and the original loan amount.

How do PRIVATE student loans differ from FEDERAL student loans?

- Private student loans typically are different from federal financial aid loans, contain more restrictive terms, and are often more expensive.
- Private lending companies are not required to offer the same federally "guaranteed" low interest rates or student safeguards.
- Private lending companies may require you to repay the loan even if your school closes while you are attending. Federal loans may be forgiven.
- The interest rate for private student loans is based on the credit rating of the student or co-signer and the amount of the loan, so the interest rate may be higher if the borrower's credit rating is poor or the loan amount is low.
- Options on private student loans to postpone or lower payments may be limited and subject to additional fees.
- There is no interest subsidy on private student loans as there is on some federal loans, so the borrower is responsible for repaying all of the interest, including the interest that accrues while the student is attending school.
- Private student loans usually cannot be consolidated (combined for easier repayment) with other loans.

Federal Financial Aid (Title IV) Loans:

- **Perkins Loans**
- **Stafford Loans (Direct and FFEL)**
- **PLUS Loans**