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EDUCATION FINANCE COUNCIL

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Private Educational Loans 101

If you've used all of your savings, and have exhausted scholarships and Federal student aid, private educational loans can help you pay what's left of your college bills.

Sometimes called "alternative" loans, private loans are not part of the Federal loan programs. Federal student loans, such as Stafford or PLUS loans, are often a less expensive borrowing option than private loans. Federal loans offer interest rates that are often lower than the variable rates typically associated with private loans, and better repayment and forgiveness options.

Before you take out a private loan, be sure to fill out the Free Application for Federal Student Aid (FAFSA) to see if you qualify for grants, work-study and other forms of Federal, State and Institutional student aid. Also be sure to check out Federal PLUS Loans, as PLUS loans may be less expensive than private loans. *To fill out the FAFSA, go to www.fafsa.ed.gov.*

Since Federal student loans have a limit on the amount you can borrow, you may need to borrow a private loan to cover the remainder of your cost of attendance. Private loans are often a better option than paying for college with a high interest credit card, but the terms and conditions of private loans vary greatly – **be sure and do your homework first**. If you have questions, talk to your financial aid officer for advice about selecting a private loan that best meets your needs.

"Cost of Attendance" & Your Private Loan

"Cost of Attendance" is the total amount it costs to attend the institution in which you are enrolled. This total includes tuition and fees, room and board, plus allowances for books and supplies, transportation, as well as personal and other incidental expenses.

Your institution will assemble your financial aid package by subtracting what you can contribute toward your education, as determined through the FAFSA, from your cost of attendance (COA). If your COA is more than what you can contribute, you may be eligible for need-based financial aid (scholarships, grants, Work-Study and low-cost Federal student loans).

It is important to know, however, that when you take out a private loan, any amount that exceeds the difference between cost of attendance and other financial aid will be considered a "resource" that you can use towards your college expenses. What this means is that any excess private loan funds may reduce the amount of need-based aid that you are eligible to receive.

Be sure to consult with your institution's financial aid officer about how a private loan will affect your overall financial aid package **before** taking out a private loan so that you don't miss out on less costly financial aid options.

How Your Credit Score Will Be Used

Unlike Federal educational loans, the terms and conditions of your private loan – the interest rate, any fees, the amount you can borrow, the length of the loan repayment period – will depend in part on your credit history and also that of your co-signer if one is required.

Co-Signer: If a person has poor or limited credit history, a lender may require the borrower to use a “co-signer” to get a loan. In signing the loan application forms, the co-signer assumes a legal obligation to make payments on the other person's debt should that person default. A co-signer should always be comfortable with the borrower's ability to repay the debt before agreeing to become a co-signer.

For both Federal and private educational loans, your repayment habits will help you build your credit history. Your credit history tells creditors (people who lend money) how likely you are as a borrower to default (become unable to pay back the loan).

While a good credit history can help you with future purchases such as a car or a home, a bad credit history could mean creditors are less willing to lend money to you for these expenses, or that they will lend to you at higher and more expensive interest rates.

Investigate Your Loan Options & Ask For Help in Your Search

If you need to take out a private educational loan to make your dream of a college degree come true, remember that it pays to do your homework first. When researching your loan options, you will likely see advertisements that say applying is “fast and easy” and “takes only minutes.” But remember that the terms and conditions of private educational loans can be very different. It is in your best interest to take your time and find the right loan for you.

While the number of options may be overwhelming, remember that there are **people willing to help you for FREE**. Talk to the financial aid officer at the institution you plan to attend or a nonprofit student loan provider for additional information.

Contact your school's financial aid office or a nonprofit student loan provider near you for more information. Also, consider visiting EFC's Financial Literacy online homepage at www.efc.org/finlit for additional information and tools that will help you make good financial decisions along your path to college.