

## **ALTERNATIVE/PRIVATE LOAN SELECTION**

With educational costs at an all-time high, it should come as no surprise that educational debt is also at an all-time high. Variables such as high education costs, high levels of discretionary spending, and more reliance on the student to pay for their educational costs [among other issues] have resulted in a tremendous increase in the usage of alternative/private loans for student [and parent] borrowing.

What you should not do [if looking at alternative loans] is assume that they are all created equal – believe me, they're not! Also consider the name – 'Alternative' Loan – this avenue shouldn't be pursued until all primary avenues have been explored: i.e., grants, scholarships, federal loans. If you've exhausted these options and have determined that an alternative loan is necessary, here's what you should consider (always look at more than one loan option before making any decision):

### **FEES & INTEREST RATES.**

Most of the common loan fees can be avoided if you shop around:

- Application fees (can be avoided)
- Loan origination fees (can be avoided)

Interest rates vary dramatically (as much as 2.5%+) – rates will particularly vary depending on the credit of the individual; fees charged, borrower benefits, repayment terms, and most other aspects of the loans will vary dramatically from program to program. Spending a few minutes researching the various loan products can save literally thousands of dollars over the repayment of the loan.

### **LOAN ELIGIBILITY ISSUES.**

- Do I need a cosigner?
  - o If so, is there a cosigner release option (will the company release the cosigner from liability after 24 payments (or after some on-time period of time))?
  - o Will a cosigner reduce the loan costs to me (better rate, reduce/eliminate fees, etc.)?
- Do I need to be enrolled full-time in school to be eligible?

### **BORROWER TERMS.**

- What is the interest rate? (A good rate is typically Prime + 0% -- prime recently was just raised to 8%). What is the formula they utilize?
- What is the interest rate cap? As interest rates rise, most alternative loan rates will also raise because they are linked to the Prime Rate or LIBOR Rate -- many companies cap rates at 20%-25% - ouch!
- Are there fees? What are they? When are they assessed (rolled into loan)?
- What are the minimum/maximum borrower limits?
- What is the aggregate (total) borrower limit?
- Will loan terms change if my debt-to-income ratio changes?

### **REPAYMENT TERMS.**

- When does repayment begin?
- What are my repayment options?
- Are payments required while I'm in school?
- Is interest capitalized? [probably] - If so, when?
- What will my monthly payments be?

- What will be the total costs of the loan (interest, principal, fees)?

### **BORROWER BENEFITS.**

- Are there any discounts for on-time and/or automatic payments?
- Is consolidation available? Benefits for doing so? (*NOTE. YOU DO NOT WANT TO CONSOLIDATE ALTERNATIVE LOANS WITH FEDERAL LOANS EVEN IF THE PRIVATE LOAN COMPANY WILL ALLOW IT!*)
- Are there deferment/forbearance options during repayment if needed?
- What benefits does this company offer that makes their loan better for me than another lender's program (some programs are offered to specific audiences: MBA students, medical students, etc.)?

### **LOAN PROCESS.**

- Can I apply online?
- Is the money disbursed (paid out) electronically?
- How long before I can expect the money?
- Other elements that would simplify the process? Save me time/money?

### **OTHER RESOURCES.**

- Loan Comparison Worksheet ([www.nela.net/~content/~downloads/chart.pdf](http://www.nela.net/~content/~downloads/chart.pdf))
- Loan Analyzer – cost of loan ([www.finaid.org/calculators/loananalyzer.phtml](http://www.finaid.org/calculators/loananalyzer.phtml))
- Payment estimator ([www.mapping-your-future.org/features/loancalc.htm](http://www.mapping-your-future.org/features/loancalc.htm))
- Your school may have a list of approved lenders as a starting point – MU does: (<http://sfa.missouri.edu/altloanlender.php>)
- You may want to speak with a financial aid representative and/or schedule an appointment with a financial counselor at the OFS before taking action.

### **CAN YOU AFFORD IT??**

- Remember – the fact that you find an alternative loan product that is better than another doesn't mean you can afford it. Make sure you know what you're getting into. Understand the obligation and the costs, so that you can weigh those issues versus the benefits to you of the loan (continuing school, etc.). Bottom line – will you be able to afford the pending monthly payments?

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### **CONTACT INFO:**

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