

Tips for Researching Private Loan Lenders

Private loans are available to students and families who need additional funding to fill the gap between the cost of an education and other sources of financial aid. As a general rule, students should only use private loans once they have taken advantage of the full range of federal and state aid that the student may be eligible for, as determined by the college or university financial aid office. If you believe you are eligible for federal or state aid, remember to complete a FAFSA every academic year as soon as possible after January 1st.

If you have decided to use a private loan, contact your college financial aid office to determine if they maintain a list of suggested lenders or a list of lenders who have made loans to students at your college in the past. Remember that these lists are not exclusive and you are not required to choose from them. However, not all colleges and universities are required to provide their students with such information and some choose not to make referrals to specific lenders. You can also try a web-based search to investigate your lender options. Here are a few tips to keep in mind when you are researching and comparing lenders to find the right loan for you, as most private loan factors vary by lender.

The Application Process

- Is there an enrollment requirement? Some lenders may require you to be enrolled at least half time.
- How much should you borrow? Private loans are funds that have to be repaid, with interest. You should only borrow what you need. Remember that you are borrowing to pay for an education, not a lifestyle.
- Estimate monthly payments associated with borrowing different loan amounts to see if the payments will be reasonable after graduation. You can find loan repayment calculators at the Iowa College Aid website www.iowaCollegeAid.gov. It will be more beneficial to budget now while you're in school rather than budget later to pay for it.
- Can you apply online? If so, will you have future access to an online account?
- What documents will you need to complete the application? Some private lenders may require proof of citizenship as well as pay stub information.
- Remember to keep copies of all private loan application forms and supporting documents, as well as lender contact and loan account information.

Co-signers

- Do you have a good credit rating? Are you required to have a co-signer? Applying with a co-signer will often make you eligible for a loan with a lower interest rate and lower fees. If you are an international student, it may be required that you apply with a credit-worthy U.S. Citizen or permanent resident co-signer.
- Do you know someone who would be willing to co-sign for you?
- Can a co-signer ever be removed from a loan?

Interest Rates

- What loans offer the best interest rate? What interest rate will you qualify for? Make sure to understand if and how often your interest rate can change and what the maximum interest rate can be.
- When does the interest begin to accrue? If you can pay the interest while you are in school, you'll save yourself a lot of money in the end. However, if that isn't possible, find out if the interest will capitalize (be added to your principal loan amount) and how often.

Loan Fees

- What is the loan fee amount? Remember- if you apply with a co-signer, you can reduce the amount of loan fees required.
- How do the lenders collect the loan fees? Are they charged to you or deducted directly from the loan funds prior to disbursement to your school?

Repayment

- Do you have to pay on the loan while you're in school, or is it deferred until after graduation? If it is deferred until after graduation, is there a grace period?
- What are the repayment options? What is the total amount of interest paid with each option?
- Are there loan deferment or discharge options? What are your responsibilities towards the loan if you go back to school, experience economic hardship, or become totally and permanently disabled or die?
- Are there any loan repayment incentives? Some lenders may offer incentives for on-time payments or an auto-debit agreement.
- Are loan cancellation and forgiveness programs available?

Late Payments

- When is a payment considered late and what are the penalties?
- How will a late payment affect your loan balance, interest rate and credit rating?

Word of Mouth

- Ask for recommendations! What have your family and friends used in the past? Learn about the good and bad experiences that others have had with particular lenders.
- Use what you know. Do you have federal loans from a lender that offers a competitive private loan?
- Blog it. Use the internet to search for the public's view on lenders and their products.
- Check with public advocacy agencies, like the consumer protection division of your state attorney general's office, and with the Better Business Bureau to see what they know about a lender you are considering.

Choosing a private loan lender is ultimately your decision to make. Be sure you have explored all other forms of financial aid before borrowing a private loan and that you research all private loan options thoroughly before making your final decision.



IowaCollegeAid.gov