Private Loans

Frequently Asked Questions (and Answers):

- **How does it affect your credit?**
  - It depends. If you make all of your payments on time, your credit may improve over time. Late and missed payments will damage your credit.

- **How do you apply for a private loan?**
  - For private loans, you will need to submit an application for the loan directly to the lender. Applications will ask for things like the college you're attending, what kind of degree you're seeking (e.g. Bachelor's degree), and how much you're seeking to borrow, as well as personal information and income information.

- **Where can you apply for a private loan?**
  - In most cases, you will need to apply for a loan directly on the lender's website. Check out the resources below for more helpful resources and places to get started!

- **Do I have to apply for a private student loan at a certain time of year?**
  - No. Lenders accept and process private student loan applications throughout the year. If you find that you have unexpected expenses mid-year, you can apply for a private student loan at any time.

- **What are the terms and conditions of a private student loan?**
  - The terms of a private student loan can vary by lender, but there are some common features. The interest rate on a private student loan is determined by the credit of the borrower and cosigner. The loan funds are sent directly to the school. Repayment typically begins 6 months after leaving school, but interest may begin to accrue immediately after the loan is disbursed. The amount borrowed usually determines the time period for repaying the loan. Failure to meet the terms and conditions will damage the credit of both the borrower and cosigner.

- **What should I be looking for when deciding on a lender?**
  - It depends on your situation, but in general, it's recommended that you look for lenders that are going to allow for flexibility when it comes to interest rates and payment plans. Here are some good questions to ask the lender about their terms:
    - Is there a fee for paying off the loan early or making payments while I am still in school? *Since interest will most likely begin to accrue as soon as you take out the loan, it's in your best interest to at least be able to pay off the interest that accrues

while you are in school so that the total loan amount doesn't progressively increase in size.

- Do I have the option to defer payments on the loan until after I graduate?
- What are my options for setting the interest rate?
- What are my repayment plan options?
- Can anyone else make payments on my behalf?
- What happens if I face unexpected financial hardship and cannot make a payment or payments?

- **What are private loans available for DACA students?**
  - Student Loan Hero offers some great financial aid advice for DACA students in general, in addition to some important tips about what to look for in private loans, which lenders are most reputable, and a break down of the different loan terms in this article entitled: 5 Best Private Student Loans Available in 2018.

Resources:

1. Loan Analyzer Calculator lets you predict monthly payments and pay-off time-frame based on the different loans you are comparing. This is another student-friendly student loan calculator from SoFi.com.
2. StudentLoans.gov has a financial awareness counseling feature that can be used to look into the future and see how much is being offered in loans, and how to avoid default. You have to use your FSA ID to log in.
3. Top 6 Ways to Reduce What You Owe. This document explains how to be a 'smart borrower,' especially by paying the interest on your loans before they capitalize. The 6th tip is a plug for Great Lakes as a loan servicer, but the rest is relevant regardless of who is your loan servicer. Navient also explains How Student Loan Interest Works.

Terms and definitions:

- **Annual Percentage Rate (APR)**: This rate is the annual yearly cost of borrowing money, reflected as a percentage. Often this rate will include any additional fees associated with the loan, including application fees or loan origination fees. Because of this, your APR may be higher than your interest rate.
- **Cosign**:when taking out a private loan, students often need a cosigner. This is a person that agrees to legally take on the student's debt as their own if the student is unable to make payments.
- **Fees**
  - **Disbursement fee/origination fee:** fee charged by the lender for processing the loan and sending the loan to the borrower
  - **Late fee:** amount charged by the lender for not making a payment by the due date

- **Interest**: the amount that the lender charges on the principal over time, expressed as a percentage
    - **Variable**: A variable interest rate can change during the life of the loan.
    - **Fixed**: A fixed interest rate will not change during the life of the loan.
    - Typically, private loans with fixed rates have higher interest rates than variable rates.
- **Length of repayment**: While the typical length of repayment for a student loan is 10 years, there are more repayment options for private student loans. Some lenders may provide terms for you to repay your loan over 25 years. While a longer repayment period will make your monthly payments smaller, you will end up paying more in interest.
- **Prepayment Penalty**: Under the Higher Education Opportunity Act of 2008, private lenders cannot charge you a fee for paying off your loan in full before the agreed upon repayment period. When reviewing your private loan options, be sure that there is no penalty for paying off your loan early. AKA: early repayment fee, redemption charge
- **Principal**: the amount originally borrowed, excluding cases of capitalization--see resource 7 for more detailed information.