Private Education Loan Handbook – Make an Investment in the Future

EXPLORE

Borrow responsibly. Make sure you understand how a private loan works, and how it could fit into your plans to pay for college.

A Private Education Loan is:

- Borrowed money to pay for higher education
- Generally offered to students by financial institutions, such as banks or credit unions
- Available based on a good credit rating, or with a creditworthy cosigner

Consider a private education loan when you've explored the following options but have remaining costs:

- Scholarships
- Financial aid offered by your school
- Federal student loans offered through the Department of Education
- Money from your personal savings

Tip: *Make sure you consider the full cost of college — not only tuition and fees, but housing, meals, books, personal expenses, and even transportation. That way, you won't scramble to pay for unplanned expenses at the last minute*

PLAN

One of your first questions might be, "How much should I borrow?" In short, borrow only what you will need and, even more important, only what you'll be able to repay.

Figuring out how much to borrow:

- Use an online calculator — such as Sallie Mae's Education Investment Planner® (go.salliemae.com/plan/) — to determine your expected monthly payments.
- As you plan, remember that you'll have other financial obligations after graduation, such as rent or mortgage, utility bills, and transportation.
- Research your future earnings potential in your chosen field. (The U.S. Department of Labor lists salary estimates by occupation at www.bls.gov/oco/).
- Use these two popular methods to determine how much to borrow:
    - **Monthly income percentage:** Your monthly payment should be no more than 10% of your pre-tax monthly income.
    - **Starting salary:** The total amount borrowed shouldn't be more than your expected annual starting salary

EVALUATE

When you're evaluating private education loans, consider the total loan cost. Interest rates, fees, and loan repayment schedules are primary factors.

Interest rates: Some lenders offer loans with both variable and fixed interest rates.

Fixed-rate loan:
- Same interest rate for the life of the loan
- Often higher rates than variable-rate loans
- Set monthly payment amounts

Variable-rate loan:
- Rates depend on economy, and can rise or fall
- Often lower beginning rate than fixed rate loan
- Monthly payment amounts change when the interest rate changes

Fees: Lenders sometimes add additional fees to the total loan amount, usually called an "Origination" or "Disbursement" fee.

Repayment options: The way you choose to repay the loan will impact the total amount you will pay. Evaluate whether you would prefer to begin repayment while in school or to defer until after graduation.

Tip: *Even small payments will help lower the cost of a loan, so consider looking for a loan that allows flexibility while you are in school.*

When payments are made	Result
While in school	Choosing to pay interest while in school will allow you to graduate owing the same amount you borrowed. Even making small payments during school will help reduce your total cost.
After school	• Paying later offers flexibility while in school • Interest grows and is added to the loan balance
Length of repayment	
Longer term of repayment	• Lower monthly payment • More interest paid overall
Shorter term of repayment	• Higher monthly payment • Total cost of loan (including interest) decreases

Example:
This shows a $10,000 loan at an 8% interest rate. The APR with deferred payments during school is 7.48% and with interest payments during school it is 7.99%. This example assumes the student is in school for four years and will have a six-month grace period before principal and interest payments start, with a 10-year repayment term:

In-School Plan	Monthly In-School Payment	Balance at Repayment (typically 6 months after graduation)	Principal & Interest Payment (10 years)	Total Amount Paid
No Payment	$0	$13,286	$161	$19,339
Pay Interest	$66	$10,000	$122	$17,848

CONSIDER

Here is a list of terms and features to consider when you're choosing a private education loan. Note that they differ from lender to lender.

Term/Feature	Choice	What it means
Interest rate	Variable rate	Payment amounts can vary over the life of the loan
	Fixed rate	Set payment amount over the life of the loan
Repayment options	Make payments while in school	Lowers overall cost of the loan
	Delay making payments until after graduation	Flexibility; will increase the total loan cost
Benefits offered by the lender	• Enrolling in automatic debit payments • Making payments on time	Provide discounts to your loan, reducing the total
Other features	• Cosigner release (releases cosigner from repayment responsibility after a certain period of time) • Death and disability waivers • Programs for customers in financial distress	Helpful features can make repayment easier in difficult times
Lender profile	• Company history/financial stability • Experience in the education industry	Make sure you are confident in the stability of your lender

DECIDE

Now that you have some idea of what to look for when you're choosing a private education loan, it's time to make a decision. Here are some do's and don'ts:

- DO consult with the school's financial aid office and review their school lender lists.
- DO consider being a cosigner if the student has a limited or no credit history. Not only will you help the student qualify, but they could get a much better rate because of your good credit!
- DO carefully read and review any offers you receive by mail or email.
- DO make sure you compare all facets of your potential loans: repayment options, benefits, features, and the stability of the lender.
- DON'T forget to do your math. Make sure the loan meets the student's needs and that subsequent payments will be practical for him or her to make after graduation.
- DON'T be shy about asking questions! Your school's financial aid office can help explain any points you don't understand.