

Questions to Consider Before Selecting a Private Loan

The following are questions that should be considered as you research private loan options:

1. When should I apply for a private loan? – It is recommended that you apply for a private loan six to eight weeks before payment is due. Be sure to follow-up with the lender to ensure that you have completed all necessary paperwork. It is important to read all correspondence that is received from the lender as they often request additional information to fully underwrite a loan.
2. What is the interest rate and how often does that rate change? - Interest rates on private student loans are generally variable and can change monthly or quarterly. Most rates are determined by using a financial standard such as Prime or LIBOR plus a margin that is usually based on the creditworthiness of a borrower and cosigner.
3. Will shopping around for the best private loan interest rate affect my FICO score? – Rate shopping and loan finalization within a 30-day period should have only a minimal effect on credit score.
4. Is the lender charging fees for processing the loan? – Some lenders charge up-front origination fees that are a percentage of the loan, while others may charge repayment fees. If fees are taken out of the loan proceeds, you are still responsible for paying back the full loan amount including the fees.
5. Do I need a cosigner on the private loan? – Most loans require a credit worthy co-signer. Even if a cosigner is optional, one is recommended as it will usually yield a lower interest rate for the borrower.
6. How often is interest capitalized on the loan? – Capitalization is adding accrued interest to the principal balance. The more frequently a loan is capitalized, the costlier it will be to the borrower.
7. Am I required to make interest payments on the loan while I'm in school? – Some lenders do require interest only payments while the borrower is in school. Making these payments will reduce the overall cost of the loan and can be done even if the lender does not require it. If the lender is requiring these payments, it is important that you have the ability to make those payments.
8. Does the lender have a yearly or cumulative (aggregate) borrowing limit? – As you evaluate what you need to borrow over your four years, keep these limits in mind.
9. Can I borrow from more than one lender? – If possible, it is recommended that you stay with one private lender throughout your college career. This should make the process of repaying loans more efficient.
10. Are there any borrower benefits associated with the loan? – Many lenders offer benefits for a certain number of on-time payments, payments received through electronic funds transfer and even graduation. Some lenders also offer possible release of cosigners after making a certain number of on-time payments.
11. What are the repayment terms on the loan? - Generally, most loans have a six-month grace period after graduation before repayment begins. The length of repayment period varies by lender and usually ranges from 10 – 20 years.
12. Can this loan be deferred while in graduate school? – This will vary by lender, but most often they can be if the borrower is at least half time. Some lenders do have caps on the maximum number of months loans can be deferred.