

CheapScholar's Guide To Choosing A Private Loan

I need to preface this by stating that I would never recommend a private education loan to cover your college expenses. That being said, if you have exhausted all of your other options available through the federal loan program (including Parent PLUS), maximized all your scholarship opportunities, and hit up your network of friends and family for financial support, then it is probably time for you to look at a private education loan.

Tips For Choosing The Right Private Education Loan

- **Check Interest Rates:** What is the interest rate today? Is the rate fixed or variable? If it is variable, what is the maximum percentage that it can reach?
- **Repayment Benefits?:** Does the loan carry repayment benefits for so many on time payments? Some loans used to give you a 1% capital reduction after 36 on time payments.
- **Do I need a co-signer?:** Chances are yes! In the past a co-signer was not usually required but the education loan market has changed and you better count on having a co-signer in place before applying for a private education loan. Besides, they usually give you a better interest rate and reduced origination fees if you have a co-signer.
- **Read The Promissory Note:** I know this is hard and your eyes are quickly going to glaze over as you look at the promissory note but this is a legally binding document and you want to make sure that you are not committing yourself to more than you thought.
- **Shop Around:** Lenders of private education loans are required to hold their loan offers open for a period of at least 30 days. This gives you time to check out the competition and make sure you are getting the best benefit.
- **Don't Pass on Federal Loans:** I said this above but it is worth mentioning again. Don't take a private education loan unless you have already exhausted all the loan monies available to you via federal programs. Statistics show that one in five students pass up less expensive federal loans for the private alternative just because they thought it was easier to apply for or they were not aware of all their loan options.
- **Check out the Repayment Terms:** Meaning, how long do you have to pay back the loan? (10 years, 15, 20?) Is the loan able to be deferred if you go to graduate school? How often is the interest capitalized? (once a year is pretty typical) Are forbearance privileges available? (if you are unable to secure employment)



I hope you find this information helpful as you are looking over different loan options to cover your tuition expense for the coming year.

