

# PRIVATE LOAN CHECKLIST

## NEED ADDITIONAL GUIDANCE?

For more information on federal student aid, visit [studentaid.gov](http://studentaid.gov) and [finaid.org](http://finaid.org).

For more information on borrowing wisely for higher education, visit [MySmartBorrowing.org](http://MySmartBorrowing.org).

For more information on budgeting and student loan repayment, visit [YouCanDealWithIt.com](http://YouCanDealWithIt.com).



If you are considering using a private student loan to help cover educational expenses, use this checklist as you research various loan products and lenders.

- Have you explored all financial aid options with the school you plan to attend?
- Have you calculated how much total loan debt you are realistically able to take on?
- Obtain an **Application and Solicitation Disclosure** from each lender you consider.
- Is there a minimum or maximum amount which can be borrowed each year or in total?
- What fees are assessed, and when?
- Is the interest rate fixed (\_\_\_%) or variable (currently \_\_\_%); how and when will it change?
- What are the credit requirements for the student borrower?
- Is a cosigner required? If yes:
  - Who is eligible to be a cosigner?
  - What are the credit requirements for the cosigner?
  - Are the repayment obligations of the cosigner clearly stated?
  - Is there a cosigner release option, and what are the terms?
- What repayment options are available?
- Is there a provision for deferring payments while the student is in school?
- Are there any penalties for early repayment or prepayment?
- Under what circumstances can reconsideration be given or can the loan be forgiven?
- What are the consequences of non-payment for the borrower and the cosigner?

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Created in 1963 by the Pennsylvania General Assembly, the Pennsylvania Higher Education Assistance Agency (PHEAA) has evolved into one of the nation's leading student aid organizations. Today, PHEAA is a national provider of student financial aid services, serving millions of students and thousands of schools through its loan guaranty, loan servicing, financial aid processing, outreach, and other student aid programs.

PHEAA's earnings are used to support its public service mission and to pay its operating costs, including administration of the Pennsylvania State Grant and other state-funded student aid programs. PHEAA continues to devote its energy, resources and imagination to developing innovative ways to ease the financial burden of higher education for students, families, schools, and taxpayers.

PHEAA conducts its student loan servicing activities nationally as American Education Services (AES) and FedLoan Servicing.

[PHEAA.org](http://PHEAA.org)

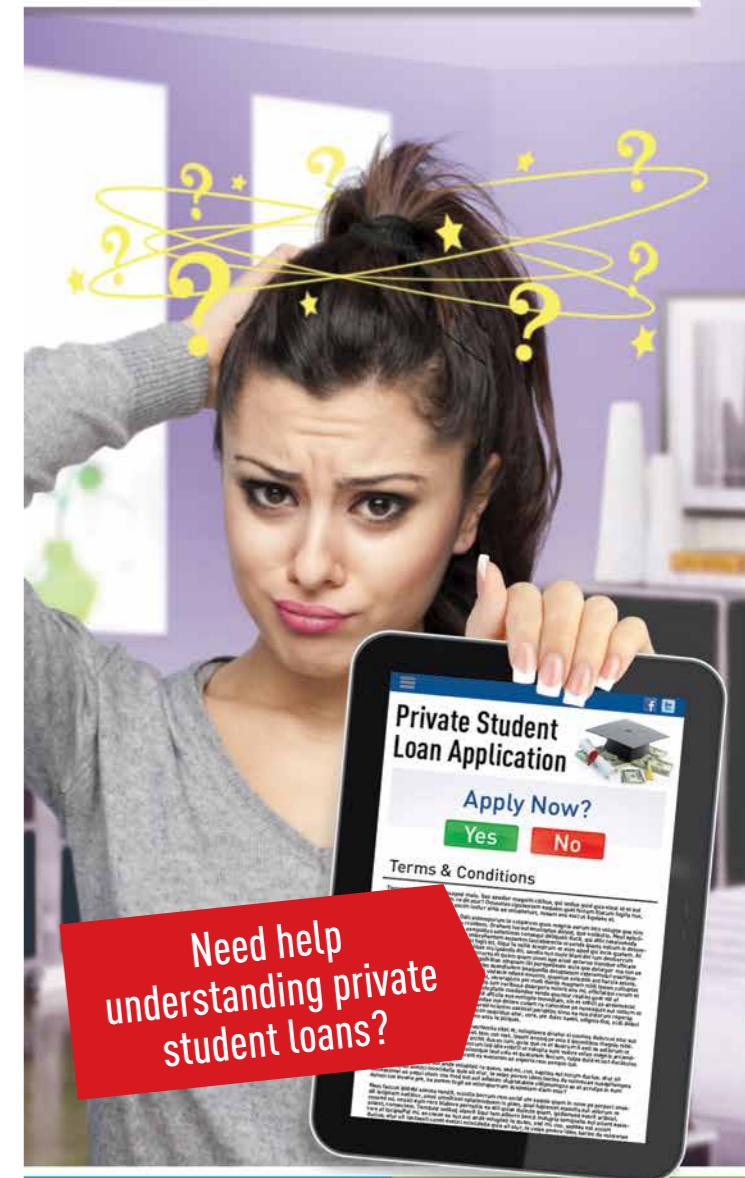


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## PRIVATE STUDENT LOANS



**Need help understanding private student loans?**

Many families face a significant financial challenge in paying for higher education. It is often necessary for students and parents to borrow in order to meet all of the expenses.

When borrowing, it is very important to have a clear understanding of the terms and conditions of the various loan products available. While many families are familiar with federal education loans, they may be less familiar with the various private loans which are also available for students.



## WHAT ARE PRIVATE STUDENT LOANS?

Private student loans are consumer loans made to individuals to help pay for college expenses, often up to the full cost of attendance. They are provided by both for-profit and non-profit lending institutions. They are not backed by the federal government, but they are regulated by consumer credit laws.

**Private loans are designed to supplement, not replace, other funding the student may be receiving through federal, state and school-based financial aid programs.** In other words, they are usually viewed as a resource of last resort after all other options have been exhausted. In fact, private loan applicants are required to certify that they are aware of federal, state and school-based aid programs which may be available to them.

## HOW DO PRIVATE LOANS DIFFER FROM FEDERAL LOANS?

Federal student and parent loans are government-backed loans available through the Federal Direct Loan Program. They are low-cost, fixed rate loans which come with a wide range of repayment options and certain loan forgiveness provisions. There are no credit or cosigner requirements for student loans. Parents borrowing through the Direct PLUS loan program cannot have an adverse credit history.

In contrast, private loans may have either fixed or variable interest rates, fewer repayment and forgiveness options, and much stricter credit requirements (similar to home mortgages, car loans, etc.). Since these loans are issued in the name of the student, many lenders require a cosigner with a stable credit history.

# UNDERSTAND THE FINE PRINT

NEVER TAKE OUT A LOAN WITHOUT READING AND UNDERSTANDING THE TERMS & CONDITIONS



## WHAT ARE THE CREDIT REQUIREMENTS?

Since these are private consumer loans, the credit requirements differ from lender to lender. In addition to performing a routine credit check, most lenders also consider other factors such as credit score and debt-to-income ratio. In many cases, the student's credit history is insufficient to secure the loan; a cosigner is then required. If so, the cosigner's credit information is then taken into consideration.



## WHAT ARE THE COSIGNER PROVISIONS?

**Cosigning a private loan is a very serious obligation. A cosigner is fully responsible for repayment of the loan if the student borrower fails to meet their repayment obligation.** Therefore, anyone considering cosigning a loan must fully understand the financial responsibility they are taking on, and have the means to handle it, if necessary.

Each lender determines its cosigner requirements, including who will be considered as a potential cosigner (typically a parent), what the credit requirements are for that person, and whether or not a "cosigner release option" is available once the borrower has made payments over a certain period of time.



## WHAT ARE THE FEES & INTEREST RATES?

Since these are private consumer loans, lenders are free to set fees and calculate interest rates as they deem appropriate. These fees and rates, and the methods by which they are determined, can vary widely from lender to lender. Rates can be either fixed or variable, and are often tied to the credit history of both the borrower and cosigner.

In some cases, an outstanding credit rating might result in an interest rate which is actually **lower** than what is currently being charged on federal loans. This could make the private loan a very viable option for some students, although all terms and conditions of the loan must be given careful consideration.



## WHAT ARE THE REPAYMENT OBLIGATIONS & OPTIONS?

Education loans, whether federal or private, are a serious financial obligation. These loans **must** be repaid, even if the student does not graduate or does not get a job in their chosen field. Failure to repay can lead to default, a damaged credit rating, and other negative consequences.

While federal loans have a wide array of repayment options, private loans typically offer less flexibility. Both the borrower and the cosigner (if required) should clearly understand these options and remain in contact with the lender should timely repayment ever become a problem.