

Choosing the Right Loan

Student loan choices can make a real difference in both cost and convenience.

Federal loans may offer loan forgiveness options in which some or even the entire loan is repaid based on the work students do after college while private loans may offer discounts off the interest rate. That said, once federal loan limits are maxed out, private loans can be a sensible choice – as long as you pick the right one.

Before choosing any education loan, make sure you can answer the following questions:

- Is the loan a federal or a private loan? Federal loans should be your first choice.
- What is the loan interest rate? Private loan interest rates typically vary depending on the borrower and co-signer (if applicable) credit history. Private loans are often subject to credit approval and other required criteria.
- Will you be required to make loan payments or pay interest while you are enrolled? Paying interest while in school is a good idea, but ideally it should be an option, not a requirement.
- If you do not pay interest while enrolled, how often will interest be capitalized or added to the remaining principal on your loan? The more frequent the capitalization, the more expensive the loan is likely to be (provided you are comparing with another loan with the same interest rate).
- Will the lender also be the ongoing loan servicer or will the loan be sold or transferred for service once it is made? Who will be your servicer?
- How easy is it to access the lender and servicer by web, phone or in-person? If you have questions, you need an easy way to get answers.
- What up-front fees may be associated with the loan? At the time your loan is being made, are there any credits or fee waivers to save you money? If so, what are they and how do you qualify? Lenders may reduce interest rates after a certain number of payments, but “up front” discounts are a sure thing.
- During repayment, are there ways to reduce your interest rate or principal if you make your



payments on time or pay by automatic payments from your checking or savings account? If so, by how much?

- Are you guaranteed to keep the borrower benefits originally received on your loan as long as you continue to meet eligibility requirements?
- What repayment options are available? Can loan repayment be deferred for graduate school?
- What will be the total cost of your loan if paid as agreed? In other words, if you make all the payments on time for the entire term of the loan (10 years, etc.), what will it cost? This is the “bottom line” price.

If you have sizable loans, even a one-quarter-percentage point reduction will save you money over the life of the loan. Also, when interest is capitalized, you end up paying interest on your interest, as well as on the principal amount of the loan. Frequent capitalizations mean you pay more interest over the life of the loan. That’s why knowing the “bottom line” price is so important. Ideally, additional savings may be realized through prepayment.

If you are still making loan choices, explore all of your choices before signing on the dotted line.