

Points to Consider When Applying for Alternative Loans

Alternative loans come from a variety of sources. These loans offer different terms, fees, interest rates, benefits and repayment options. The following questions are meant as a basis for helping students choose an alternative loan that meets their needs.

- 1. Do I have to be a U.S. Citizen?** Most alternative loans require that the borrower (or borrower's co-signer) be a U.S. Citizen.
- 2. Do I need to file the FAFSA to get alternative loans?** The FAFSA is not required to apply for alternative loans. However, students are *strongly encouraged* to file the FAFSA and benefit from Federal Stafford loans and other aid available *before* turning to an alternative loan. Federal loans generally offer better borrower benefits at lower interest rates.
- 3. Does the loan offer an in-school deferment?** Most education loans require that a student enroll at least half-time to get an in-school deferment. Read the loan's terms carefully to be sure.
- 4. How much can I borrow?** Refer to your Financial Aid Award letter and statements of account as a guide. Contact the Financial Aid Office if you need assistance. Most lenders will ask schools to certify that the amount borrowed is being used to cover education-related expenses (tuition, fees, books, etc).
- 5. Is there a minimum amount I can apply for?** Some lenders will not offer loans under a certain dollar amount (\$500-\$1,000). Students seeking a small loan may want to consider going on a payment plan through the Student Accounts office instead of borrowing.
- 6. Is there a processing or origination fee?** Some lenders charge a processing or origination fee that is a percentage of the amount requested by the borrower.
- 7. Do I need a co-signer?** The majority of alternative loans require co-signers for students who do not have an established credit history. A creditworthy co-signer will help secure a lower interest rate.
- 8. Do alternative loans have a variable or fixed interest rate?** Unlike Federal Stafford Loans, which have a fixed rate, most alternative loans have a variable rate. Usually, these interest rates are higher than Federal Stafford Loans.
- 9. What are the interest rates for variable rate loans based on?** Interest rates are based on either: the LIBOR (London Interbank Offered Rate), or the Prime Lending Rate as published in *The Wall Street Journal*, plus a percentage based on your credit score.
- 10. Is there a difference in interest rates based on credit score?** Yes. The Financial Aid Office strongly recommends that student borrowers apply with creditworthy co-signers to obtain the best possible interest rate.
- 11. Should I apply for more than one loan at once?** Because loan inquiries affect a borrower's credit score, it is recommended that you apply for one loan at a time. The impact on a

borrower's credit score is greater for those with a shorter credit history. This impact could affect the interest rates and fees you may be offered on subsequent applications.

- 12. What other criteria do lenders review when determining whether a student is allowed to borrow?** In addition to the student's (and co-signer's) credit history, they may require a minimum income or consider a student's debt-to-income ratio when reviewing applications for approval.
- 13. Is interest capitalized?** Interest accrues on alternative loans from the time they are disbursed. Interest costs can sometimes be deferred, but the interest will be capitalized, and you may end up repaying a larger base amount.
- 14. Are the payments sent to the school or student?** Most lenders send payments directly to the school. Be wary of any loan payment that gets sent directly to the student. When lenders bypass the Financial Aid office, it generally means the loans are at a high interest rate.
- 15. What are the repayment options?** Some lenders will send you a payment coupon book so you can mail your payments. Others allow you to set up automatic bill pay, sometimes with an interest rate reduction as an incentive to do so.
- 16. Are there any borrower benefits?** Some lenders offer interest rate deductions, co-signer releases, and other benefits for responsible repayment. Find out if you will have to do something at graduation to receive the benefit listed, such as complete a questionnaire or exit counseling. Make sure to read the fine print!
- 17. Can I regain my benefits once they are lost?** Check with the lender and read the terms of the loan to make sure you are doing everything necessary to receive your benefits. Generally speaking, benefits cannot be regained once they are lost.
- 18. Can the loan be consolidated?** Alternative loans cannot be consolidated in with federal loans. However, federal loans in the borrower's name can be consolidated together. A few lenders offer consolidation of multiple alternative loans.
- 19. Is there a repayment fee?** Make sure the lender does not penalize borrowers for early repayment of the loan.
- 20. Besides alternative loans, what other loan options are there?** Again, file your FAFSA, find out what grants and loans are available, and use those first! Parents have the option of borrowing a PLUS loan, which offers a fixed interest rate and better borrower benefits than an alternative loan. Instead of these options, some families use home equity loans to pay for college. [Visit our PLUS, Alternative Loan, Home Equity Comparison](#) for more information on each.