

Private Loan Checklist for Prospective Student and Parent Borrowers

Use this checklist to evaluate private loan products to ensure their terms and conditions match your needs. Please note that not every question may be relevant to each prospective borrower, and this list may not be comprehensive of every borrower's needs.

Remember that, unlike most federal Direct student loans, private education loans are subject to credit checks and/or other underwriting that can limit some students' and parents' ability to borrow. Private loans may also lack important protections for student and parent borrowers. Always consider your federal student loan options carefully before choosing a private loan.

Finally, watch out for student loan scams, and remember that the financial aid office is here to help you understand your education borrowing options.

Eligibility Criteria Questions	
What is the minimum credit score required to obtain the loan?	Lenders often require borrowers to prove their ability to repay the loan. One way to do that is to look at your past repayment history on other debts, which is used to calculate a credit score.
Is there a debt-to-income (or debt-to-anticipated future income) ratio?	Lenders might measure your debt-to-income ratio as part of the private loan approval process to ensure that you have (or will have) sufficient income to support the debt you are assuming.
Will borrowing a loan this year impact my ability to borrow in future years/will I have access to this loan for the duration of my program of study?	If a lender uses a debt-to-income ratio, the numerator (debt) will increase as you continue to borrow additional loans. Be certain that you can continue to borrow the private loan not just for the upcoming year, but for the duration of your studies.
Do I need a co-signer/will a co-signer help me to get better loan terms?	A cosigner assumes responsibility for repaying your loan if you don't repay it. Securing a cosigner can help you to qualify a loan you might not qualify for on your own, and/or might get you better loan terms.
Is there an automatic default or acceleration if my co-signer dies?	Some lenders might have terms that require immediate payment in full, or that automatically place a loan into default if your co-signer dies or declares bankruptcy.
Is there an annual, aggregate, or lifetime borrowing cap?	Ask about annual, aggregate, and lifetime borrowing caps to ensure you can borrow enough for each year and until you complete your program of study.
Interest Rate and Fees Questions	
What is the interest rate? What is the APR?	The interest rate is how much a lender will charge you to borrow the loan. The Annual Percentage Rate, or APR, factors in both the interest and loan fees for a clearer picture of the total cost of borrowing.
Is the interest rate fixed or variable?	A fixed interest rate stays the same over the life of the loan. A variable rate can change, but generally cannot exceed a set cap.
If variable, how often does, or can, the rate change?	Variable rates are recalculated at different frequencies depending on the loan product. Find out how frequently your variable interest rate will be adjusted.
Is there a cap on how high my interest rate can go?	Some private education loans with variable interest rates might have a cap, or a maximum interest rate, regardless of how high interest rates go.
When does interest begin to accrue?	Different private loan products may begin accruing interest at different points. It is important to understand when interest on your loan(s) begins accruing, as this impacts how much you will eventually have to repay.
How does interest accrue? (e.g., simple, daily, compound)?	Private education loans typically use the simple daily interest formula, which is calculated as: $(\text{Loan Balance} \times \text{Interest Rate}) \div 365$. However, there are several ways to calculate interest, and it is important to understand how your loan's interest would be calculated.

Interest Rate and Fees Questions

<p>When does interest capitalize?</p>	<p>Interest capitalization is a term to describe what happens when your accrued interest is added to your loan principal (the amount you owe), such that the amount you owe — and, hence, the amount future interest is based on — is higher. The frequency of capitalization impacts the amount you will eventually repay over the life of your loan.</p>
<p>Are there any fees associated with the loan/are fees added to the loan principal balance or subtracted from the loan amount that is disbursed to the school?</p>	<p>Some private education loans charge fees, which might be called application fees, origination fees, processing fees, or something else. These fees might be added to the amount you borrow, such that your principal balance and the interest that accrues on your loan are higher, or might be subtracted from your loan proceeds, such that the amount that is sent to your school is less than the amount you requested to borrow (and less than the amount you'll have to repay). Ask lenders about the fees they charge and how they are charged.</p>

Repayment/Servicing Questions

<p>When does repayment begin?</p>	<p>Different private education loans will have different repayment start dates. Some may require repayment to begin immediately after disbursement (when funds are sent to your school), while others may allow for delayed repayment until after you complete your program of study. Ask lenders about when repayment begins and whether there are any opportunities to delay repayment in the event you are unable to begin repayment on the standard timeline.</p>
<p>Can I make optional payments during school?</p>	<p>If repayment is delayed until after you complete your program of study, ask if the lender provides the opportunity to make payments during school. This could lower the lifetime cost of borrowing the loan by limiting the amount of interest you have to repay.</p>
<p>What is the repayment term (length)?</p>	<p>Ask your lender how long you'll have to repay your loan, and whether the repayment term is fixed or based on the amount you borrow. A longer repayment term will provide you with lower monthly payments, but will cost you more over the life of the loan.</p>
<p>Are there different repayment plan options?</p>	<p>Some lenders might offer different repayment plan options, such as a fixed plan where monthly payments are the same for the life of the loan, or a graduated plan where payments start low and increase later during repayment to account for low earnings early in your career. Ask about how different repayment plan options will impact the amount you repay over the life of the loan.</p>
<p>Can I change repayment plans if my circumstances change?</p>	<p>Ask about whether you can switch between different repayment plans.</p>
<p>Do you offer a calculator to estimate my monthly repayment amount?</p>	<p>Ask about how much your monthly payment would be based on how much you expect to borrow for the duration of your program of study.</p>
<p>Is there a prepayment penalty?</p>	<p>Ask whether you can make extra payments on your private education loan without penalty. Making extra payments can lower the lifetime cost of borrowing by limiting the amount of interest you have to repay.</p>
<p>Is there a co-signer release option?</p>	<p>Many private education loans offer an option to “release” your co-signer if you meet certain conditions, such as making a certain number of on-time monthly payments. This removes the lender’s ability to force your co-signer to repay your loans for you if you stop making payments.</p>
<p>Who will my monthly payments go to (servicer)?</p>	<p>Ask lenders if your monthly payments will go to them, to a third-party servicer who collects payments on their behalf, or if they will sell your loans to another entity. This is important because if you have the name of that entity, you can be careful to watch for communications from them.</p>

<p>At what point do you report delinquencies to credit bureaus?</p>	<p>As with all forms of credit, missing or making late private education loan payments is considered "delinquency" and lenders can report these events to the credit reporting bureaus, impacting your credit score and your ability to obtain other types of credit. Ask lenders about their policies for reporting late or missed payments to the credit reporting bureaus.</p>
<p>What is considered a default?</p>	<p>Different lenders have different time frames at which they consider a student loan to have entered a defaulted status due to missed payments. Find out how many missed payments would lead to default status, and what your options are if you enter default.</p>
<p>Borrower Protections Questions</p>	
<p>Under what conditions can my loan be discharged?</p>	<p>Unlike federal student loans, not all private education loans include provisions for automatic loan discharge in instances where the borrower dies or becomes permanently disabled.</p>
<p>What happens if I have difficulty repaying my student loans/Are there opportunities for temporarily reduced payments, deferment, or forbearance?</p>	<p>Ask lenders about deferment and forbearance options, any opportunities to temporarily make reduced payments, what conditions you would have to meet to receive these types of relief, and for how long you could qualify for relief. Also ask about how interest accrues and/or capitalizes during and after receiving these types of relief.</p>
<p>Do you offer any refinancing options?</p>	<p>Refinancing your private education loans could allow you to get a lower interest rate than when you originally received the loan. Ask lenders about the possibility of refinancing.</p>
<p>What happens to my loans if I decide to pursue further education in the future?</p>	<p>It is important to know whether, and for how long, you can put your private education loan repayments on pause if you decide at some later point to pursue further education, because you might not be able to afford those monthly payments while you're pursuing further education.</p>