

ALTERNATIVE LOANS



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Explanation

Alternative loans are a form of education loan that allow students to borrow additional funds beyond the federal loan programs. The federal government does not have yearly and aggregate loan limits and the federal loan programs should **always** be the student's first option for borrowing. Alternative loan rates and terms will vary by lender.

Alternative Loans - A Last Resort

Students should exhaust every other source of aid before turning to alternative loan programs. Every dollar borrowed from an alternative loan must be repaid with interest. Also, alternative loans will most likely have a higher interest rate than federally funded loans. In light of this, here are a few options you may want to consider before deciding to rely on an alternative loan:

- Applying for a Federal PLUS loan (parent loan)

DID YOU KNOW?...

If a parent is denied the Federal PLUS Loan due to poor credit, the student receives an additional Federal Unsubsidized Stafford Loan.

- Obtaining summer or part-time employment
- Getting financial assistance from relatives
- Using a portion of your savings
- Working out a partial payment plan with Student Accounts

Example: If you owe \$5,000 for the academic year, a ten month payment plan would be a monthly obligation of \$500. If the family could not afford \$500 a month, but could afford \$200 a month, the amount to be borrowed is reduced.

\$5,000 - \$2,000 (payment plan) = \$3,000 (amount borrowed)
\$5,000 @ 7.75% for ten years is \$2,200.62 in interest repaid.
\$3,000 @ 7.75% for ten years is \$1,320.38 in interest repaid.

This is a savings of \$2,000 in principal and \$880.26 in interest.

If all of these figures hurt your head, see the bottom of the next page...

If the suggestions mentioned are not viable options for you, taking advantage of alternative loans is a better way to pay for your education than covering the expense with a credit card. Students applying for an alternative loan with a co-borrower typically receive a lower interest rate than those applying without a co-borrower.

How Do I Find A Lender?

Searching for the right lender may seem daunting. A good place to start would be your local bank. Banks often offer competitive interest rates as well as various deferment and consolidation possibilities. Accessing the Web can also assist in your search. Websites such as the National Council of Higher Education Loan Programs (NCHelp) at www.nchelp.org/directory/index.htm can provide students with lists of lenders offering loan products.

(over...)

What Should I Look for in a Lender?

Experience and longevity

Is the lender a well-known, reputable company?

What is the lender's track record in the industry?

Best value and benefits

Does the lender offer competitive rates and pricing?

- *What is the interest rate?*
- *Are there fees?*

Does the lender offer reductions and rebates?

- *Is there a reduction of the principal and/or a reduction of the interest rate for automatic payments, payments made punctually after a certain length of time, etc?*
- *Is there a co-borrower release option available?*
- *Is repayment while in school required?*

Customer Service

How easily can I talk on the telephone to a person?

Is the website easy to navigate?

Flexible repayment options:

Does the lender offer different repayment options?

Can the loan be in deferment if the student enters graduate school?

Does the lender offer automatic renewal for new borrowing?

DID YOU KNOW?...

In the course of your research, you will find that lenders use different scales for determining the interest rates of alternative loans. The two most commonly used scales are Prime and LIBOR (London Interbank Offered Rate). You might think that Prime - 1/2% is a better interest rate than LIBOR + 2%. However, as of October 2007, the Prime 1 year rate was 7.75% and the LIBOR 1 year rate was 5.00%. Therefore-

Prime - 1/2% = 7.75% - .50% = 7.25% and LIBOR + 2% = 5.00% + 2% = 7.00%

For more information on Prime Rate and LIBOR, go to www.bankrate.com

How Do I Compare Lenders?

Comparing lenders is necessary in order to find the one that is best for you. Many lender websites (such as <http://www.pheaa.org/tools>) offer side-by-side comparison tables, making it easy to compare several different lenders at a glance. In addition, links to private lenders often include calculators, which allow you to compare interest rates and monthly payments.

Direct to Consumer Loans

Lenders are starting to advertise loan products directly to students and parents and emphasizing that you do not need the school's financial aid office to give approval of the loan. This is true; however, the interest rate for these loans will be significantly higher than an alternative loan that a professional staff person certifies your enrollment in school. Think about it: these loans are unsecured loans with no collateral: your collateral is the fact that you are a college student enrolled toward a degree. The financial aid counselors are more than happy to process your alternative loan application so that you can receive a lower interest rate.

Confused? Need help? Want to talk?

This information can be confusing and overwhelming. The financial aid counselors are all professionals who receive training in loan programs, interest rates, and repayment of student loans. We can help you walk through the advantages and disadvantages of the different loan products you are considering, create an estimated loan payment schedule, and give advice about being a smart borrower. Please be aware, professional staff persons are not permitted to give lender recommendations to students and parents. If you want to talk to someone before signing on the bottom line, please feel free to stop by the Office of Financial Aid in person or by calling 412-392-3930. Remember, this is a loan that you will have to repay someday, so it is smart to do some research first.