

How to Manage Your Private Loan



Private education loans can help fill the gap between the cost of your education and the financial aid you receive from federal loans, scholarships and grants. As a private loan borrower, you should clearly understand all aspects of your loan and its repayment requirements.

Federal vs. Private Loans

Do you know the differences between federal and private education loans?

- **Interest Rates**

- Federal loans generally have fixed interest rates that may be lower than interest rates for private loans.
- Most private loans have variable rates that adjust monthly or quarterly; however, fixed rates are available for some private loans.

- **Eligibility**

- To apply for federal loans, you must first complete the FAFSA (Free Application for Federal Student Aid), and your eligibility is not based on credit history.
- Private loan eligibility is based on credit history. You are not required to complete the FAFSA before applying for a private loan, but it is highly recommended. You should exhaust all aid alternatives including scholarships, grants and federal loans before applying for a private loan.

- **Deferments**

- You are generally not required to make payments on federal loans while in school, and you'll have a grace period once you leave or drop below half-time status. For some federal loans, the government pays the interest during this time. If the government does not pay the interest, you can make payments to reduce the total amount you will pay.
- Most private loan lenders offer deferment options while you are in school and grace periods after you leave or drop below half-time status. However, interest will accrue during this time, and it will be added to your principal loan balance. Ask your lender about deferment options available for your private loan.

- **Forbearance**

- A forbearance allows you to temporarily postpone or reduce loan payments if you are having difficulty making your payments as scheduled.
- Federal loans offer forbearance in intervals of up to 12 months at a time for up to a total of three years.
- Not all private loan lenders offer forbearance options, and for those that do, the terms are generally shorter than for federal loans. If you are having difficulty making your payments, contact your lender immediately.

- **Consolidation**

- Loan consolidation combines multiple loans with one or more lenders into one new loan, with a single lender. This allows you to make one payment to one lender each month.
- Federal loans can be consolidated through the Department of Education, and any federal loan benefits will be honored.
- Private loan consolidation is also available; however, private loans cannot be consolidated with federal loans. Be aware you may lose certain borrower benefits offered on the private loans being consolidated.

Your Credit

What is a credit report?

- Your credit report is a detailed list of your credit history, including any loans and credit cards you have and your payment history. Lenders may look at your credit report when evaluating your request for credit.

What is a credit score?

- Your credit score summarizes information from your credit history into a single number. This number, often called a “FICO® score,” is used by many lenders in combination with other factors to determine eligibility for all types of loans.

Do you know your credit score or how to obtain it?

- To help manage your debt, as well as protect yourself against identity theft, read your credit report at least once a year. You are entitled to a free credit report every 12 months from each of the three nationwide consumer credit bureaus, in accordance with the Fair and Accurate Credit Transactions Act (FACT Act).
- Request your free annual report online at annualcreditreport.com, a central source sponsored by Equifax, Experian, and TransUnion. Or call toll-free 877.FACTACT (877.322.8228).

Your Private Loan

What is the interest rate on your loan? Is it variable or fixed?

- Most private loans have variable interest rates that may change monthly or quarterly. With a variable rate loan, your monthly payment can increase or decrease as the rate changes.
- Fixed rate loans will have a set interest rate that remains the same for the life of the loan.

What, if any, fees apply to your loan?

- Private loans may have origination fees based on your credit history. Some may have repayment fees that will be added to your loan balance once your loan enters repayment. You may also incur late fees if you make a payment after the due date.
- Fees can significantly add to the total cost of your loan, so you should be aware of your loan's fee structure.

Do you have a cosigner on your loan?

- Most students need a creditworthy cosigner to qualify for a private loan.
- Some lenders offer an option to release a cosigner from the loan after certain criteria has been met. This criteria is determined by the lender, and making a required number of on-time payments is just one example.

- If you have a cosigner, ask your lender if a cosigner release is available. Find out what criteria you must meet to be eligible.

Are any borrower benefits offered with your private loan?

- Some lenders offer borrower benefits that may lower the overall cost of the loan. For example, you may be able to lower your interest rate if you make your monthly payments through automatic debit. Other benefits, such as principal reductions, may be available.
- Contact your lender to find out what you must do to receive any benefits available to you.

Do you know how to access your loan account?

- Most private loan lenders provide secure online access to your account. With online access, you can view account information, including balance, interest rate, monthly payment amount, payment history, and interest paid.
- Make sure you know your account login information and keep it stored in a secure location.

Repayment

Does your loan have a separate servicer?

- Many lenders partner with loan servicers to manage private loans after the loan proceeds have been disbursed. Servicers process payments and deferment requests, and they maintain all records and files associated with the loan.

Do you know your loan servicer and how to contact them?

- Shortly before your first loan payment is due, you should receive information from your loan servicer with details about your loan. You'll see how much your monthly payment will be, when the first payment is due, and where to send it.
- It is very important for you to inform your lender and your servicer of any changes in your address and/or phone number, as well as your enrollment status. Contact your lender if you don't know your loan servicer.

What are your responsibilities as a private loan borrower?

- You are responsible for paying back your loan, even if you don't complete your education or cannot find a job after graduating. You must make your payments as scheduled, so be sure you know how much, when and where to submit your required monthly payments.
- You should open and read all mail related to your student loan.
- You must immediately notify your lender or servicer if:
 - you have a change in name, address, phone number, or Social Security number
 - you drop below half-time enrollment status
 - you graduate, withdraw or transfer to another school
 - you cannot pay your loan as scheduled
 - you need to apply for deferment

Does your loan offer deferment options?

- If your loan offers the ability to defer payments while you are in school, you should be aware that interest will accrue during any period of deferment. In other words, the interest will be added to your principal loan balance.
- If you can afford to make interest payments while in school and/or during your grace period, you should do so, as this will reduce the total amount you will pay.

How long is your repayment period?

- Repayment terms are usually set by the lender and range from 5 to 25 years. Some lenders offer you the option to choose your repayment term.
- In general, a longer repayment term may allow you to have a lower monthly payment; however, your overall cost will be higher due to the interest you will pay.

What happens if you miss a payment?

- If you miss a payment, you may incur additional charges, such as late fees, that will add to the total cost of your loan.

- Missing a payment will cause your loan to be delinquent. If you fail to make payments for a specified period of time according to your loan agreement, your loan will be in default.
- Defaulting on a private loan can result in consequences for both you and your cosigner, if applicable. Your credit score could be negatively impacted, affecting your, and your cosigner's, ability to borrow in the future.
- If you are having difficulty making your payments as scheduled, immediately contact your lender or servicer to discuss options available to you.

Does your loan offer deferment or forgiveness in the event of death or disability?

- Some lenders may forgive a private loan in the event of borrower death or permanent disability. Check with your lender for specific policies regarding loan forgiveness.

Helpful Tips

- Keep all documents you receive related to your private loan, including a copy of the promissory note you signed, disclosure statements showing details about your loan, and repayment information you receive from the loan servicer.
- Contact your lender or loan servicer if you have any questions about your loan.

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