

Private Student Loans

With college tuition costs rising, many students and their families find they need private loans to supplement their financial aid. Private student loans, also referred to as alternative loans, help you bridge the gap between the actual cost of your education and the financial aid you receive from federal loans, scholarships and grants.

Private student loans are offered by banks, credit unions and other lenders and they are regulated by consumer credit laws. Because private loans aren't guaranteed by the federal government, you don't need to fill out any federal forms to apply. Private loans are generally less expensive than consumer credit cards.

Cosigners are Helpful

Lenders that offer private loans have certain credit requirements, and eligibility typically depends on your credit score. Since a credit check is required, not everyone is approved for an alternative loan and most students need a cosigner for approval.

It is recommended that students consider applying for a private student loan with a creditworthy cosigner, which usually results in a slightly lower interest rate.

Interest Rates may Vary

Private student loan interest rates are either fixed or variable. Variable interest rates are based on an index, such as the LIBOR or PRIME, plus a margin. The LIBOR index is the London Interbank Offered Rate and represents what it costs a lender to borrow money. The Prime Lending Rate is the base rate on corporate loans posted by a majority of the nation's largest banks.

The interest rates, margins and fees you pay on private student loans are typically based on your credit score and/or the credit score of your cosigner, if applicable. The higher the credit score, the lower the credit risk to the lender which typically equates to lower interest rates and fees.

What is a Credit Score?

A credit score is an objective measure of credit risk. It summarizes the information from your credit history into a single number. That number forms a basis for comparing

borrowers. Borrowers with a higher credit score are more likely to pay their debts on time. The most popular score is the FICO score, which ranges from 300 to 850, with 850 being the best possible score. Generally, your FICO score depends on your payment history, amounts owed, length of credit history, new credit, types of credit used, and public record information such as judgments and bankruptcies.

Education lenders generally use the FICO score in combination with other factors to determine eligibility for private student loans. In most cases, you won't be able to obtain a loan on your own if your FICO score is too low, or if you have insufficient credit. Having a creditworthy cosigner can help you qualify for a private student loan.

Repayment Options

Most programs allow you to delay payments while you're in school. Repayment options include: deferring or delaying your monthly principal and interest payments while you're in school; making interest-only payments while in school; and repaying your loan immediately. Deferment options often increase the total amount you will pay, because interest charges will accrue during the deferment period and they are added to your principal balance when repayment begins.

Some private loans also offer a grace period when you graduate, leave school or drop below part-time status. At the end of your grace period, you must begin making monthly payments.

Compare Lenders

The rates, benefits, and terms can vary greatly according to each lender's private loan guidelines. When you compare private loans, you should ask each lender about their interest rates and how they are calculated, eligibility requirements, loan limits, fees, repayment options, and any special benefits that are offered.

To get the best deal, do your homework and visit each lender's web site for private loan details, or ask your school's financial aid office for guidance. Many lenders, such as SunTrust Bank, offer a prequalification process so you can determine your eligibility for a private loan before you apply.

SunTrust recommends students exhaust all aid alternatives, including grants, scholarships, and federal loans prior to applying for private student loans.

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