



Session 26

Helping Financial Aid Professionals and Students Navigate the Alternative Loan Dilemma

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School Overview

- PLUS vs. Alternative Loan comparison
- Schools need to evaluate their needs for a private loan
- Questions that students and schools need to ask the lender...research tools
- Payment comparison – approach and tools





PLUS vs. Alternative Loan Comparison

Federal PLUS Loans	Private Alternative Loans
Loan Terms and Conditions	
Variable interest rate, set annually on July 1.	Variable interest rate, changes monthly or quarterly.
Interest rate capped at 9%.	Interest rate may become as high as 21%.
Lender may offer delayed payment options for up to four years through forbearance.	Payments may be deferred while the student is enrolled at least half-time.
Parent may borrow up to the total cost of attendance less other aid.	Student may borrow up to the total cost of attendance less other aid.
Credit check based on federal standards, no debt-to-income ratios or credit-scoring. A parent may have a better chance of being approved as a borrower on a PLUS Loan than as a co-signer on an alternative loan.	Borrowers must pass a comprehensive credit review process including credit scoring and proof of income requirements.





PLUS vs. Alternative Loan Comparison

Federal PLUS Loans	Private Alternative Loans
Repayment	
Parent is responsible for repayment.	Student is responsible for repayment. Please note: A co-signer is equally liable and the loan appears on their credit report. Parent can help build the credit rating of the student.
Accrued interest capitalizes once at final repayment.	Accrued interest may be capitalized monthly, quarterly, or once at repayment.
Federally insured against death and disability for both the parent and the student.	Not federally insured against death and disability.
Opportunities available to consolidate PLUS Loans, interest rate capped at 8.25%.	Consolidation options becoming more available





Evaluate the School's Loan Needs

- What populations of students do you need to serve?
- Undergraduate or Graduate
 - Degree or non-degree
 - Full time or part time
 - Traditional/Continuing Education/Distance Learning courses
 - Making academic progress/or not





Evaluate the School's Loan Needs

- “Off the Shelf” or “Custom Built”?
- Relationships with current lenders
- Understand process flow with each lender
- Certify or Not Certify – What to know about DTC loans

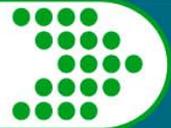




Questions to “Ask the Lender”

- Borrower Eligibility
- Loan Application Process
- Interest Rates and OTHER Fees
- Repayment Terms and Conditions





Questions to “Ask the Lender”

- Borrower Benefits
- Service from the Lender
- Greentree Gazette – Student Loan Buying Guide – Sept 2005
- Loan Comparison Worksheets: petersons.com and finaid.org





Borrower Eligibility

- What are minimum and maximum loan amounts available?
- Will this loan meet long term educational borrowing needs and immediate short term needs?
- How will my credit rating affect my loan? Great resources: myfico.com, mycreditedge.com

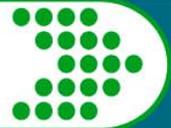




Borrower Eligibility

- Is co-signer required? If so, under what circumstances?
- Is there an option to release co-signer at later date?





Loan Application Process

- How do I apply? Through paper, web, phone application?
- How does my co-signer apply? Through paper, web, phone application?
- Do I have the option of a wet signature or an electronic signature?





Loan Application Process

- Does my co-signer have the same options?
- Is there an expedited return borrower process?





Interest Rates and OTHER Fees

- What is the current interest rate?
- Is there an interest cap?
- What additional fees, interest reductions, or other incentives are offered during the life of the loan? Do any of these conditions vary based on credit rating or availability of a co-signer?





Interest Rates and OTHER Fees

- When are late charges assessed, and how much are they?
- How is my loan capitalized, annually or at repayment?





Repayment Terms and Conditions

- What are the minimum and maximum terms and payment amounts?
- When do payments begin?
- Can interest only payment be made while in school?





Repayment Terms and Conditions

- Is there a penalty for paying off the loan early?
- Does the lender offer combined billing of alternative and federal loans?
- Are grace periods, deferments, or forbearance offered? If so, what are the conditions and how is interest capitalized during these periods?





Borrower Benefits

- Does the lender offer any other borrower benefits? If so, what are the eligibility requirements?
- If the borrower does not qualify for a benefit, is there an appeal process?





Service from the Lender

- What is the turnaround time for credit decisions?
- When and how will my loan be disbursed?
- How are problems resolved? Via phone, written email or other correspondence?





Service from the Lender

- Is there 24/7 access to loan information via the web and phone?
- What is the lender's policy on selling the loan to other lenders after the loan has been disbursed?





Alternative Loan Repayment

Repayment Option	<u>Option 1</u> Immediate Repayment	<u>Option 2</u> Interest-Only Repayment	<u>Option 3</u> Deferred Repayment
Amount Requested	\$10,000	\$10,000	\$10,000
Origination Fee	(5.00%) \$526.32	(5.00%) \$526.32	(6.50%) \$695.19
Principal Amount at Loan Disbursement	\$10,526.32	\$10,526.32	\$10,695.19
Deferment Period	0 months	48 months	48 months
Monthly Interest Payment (while in school)	(included below)	\$58.68	(deferred)
Principal Amount of Loan at Repayment	\$10,526.32	\$10,526.32	\$13,948.35
Monthly Principal & Interest Payment (after deferral period, if any)	\$79.66	\$79.66	\$104.99
Repayment Period	240 months	240 months	240 months
APR	7.35%	7.24%	7.26%
Total Finance Charge	\$9118.40	\$11,935.04	\$15,197.60
Total Repayment Amount	\$19,118.40	\$21,935.04	\$25,197.60





How to Compare Pricing

Address: <https://loanlink.nelliemae.com/Calculators/LoanComparison.asp>

Repayment Interest Rate: % ? Repayment Interest Rate: % ?

Repayment Term: month(s) Repayment Term: month(s)

Repayment Fee: % ? Repayment Fee: % ?

calculate

Results	Loan 1	Loan 2
Monthly Payment	\$142.18	\$143.34
APR	6.19%	6.23%
In-school Interest	\$4,095.00	\$4,225.00
Amount Due at Repayment	\$19,845.00	\$19,225.00
Fees at Disbursement Amount	\$750.00	\$0.00
Repayment Fee Amount	\$0.00	\$0.00
Total Finance Charge	\$19,122.18	\$19,400.74
Total Borrower Payments	\$34,122.18	\$34,400.74

Great online tool: [Education Loan Comparison Calculator, Nelliemae.com](https://loanlink.nelliemae.com/Calculators/LoanComparison.asp)

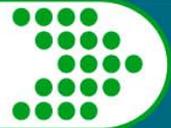




What Schools Can Do

- Determine your Alternative Loan needs
- Research lenders/programs available
- Publish information: web, handouts, preferred process





What Schools Can Do

- Sample information:
 - PLUS vs. Alternative comparison
 - Side by side lender comparisons
 - Ways students can educate themselves, questions to ask, and online resources; youcandealwithit.com, collegeanswer.com





Contact Information

We appreciate your feedback and comments.

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