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

<table>
<thead>
<tr>
<th>Federal PLUS Loans</th>
<th>Private Alternative Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Terms and Conditions</strong></td>
<td></td>
</tr>
<tr>
<td>Variable interest rate, set annually on July 1.</td>
<td>Variable interest rate, changes monthly or quarterly.</td>
</tr>
<tr>
<td>Interest rate capped at 9%.</td>
<td>Interest rate may become as high as 21%.</td>
</tr>
<tr>
<td>Lender may offer delayed payment options for up to four years through forbearance.</td>
<td>Payments may be deferred while the student is enrolled at least half-time.</td>
</tr>
<tr>
<td>Parent may borrow up to the total cost of attendance less other aid.</td>
<td>Student may borrow up to the total cost of attendance less other aid.</td>
</tr>
<tr>
<td>Credit check based on federal standards, no debt-to-income ratios or credit-scoring.</td>
<td>Borrowers must pass a comprehensive credit review process including credit scoring and proof of income requirements.</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>
## PLUS vs. Alternative Loan Comparison

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<th>Federal PLUS Loans</th>
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<tr>
<td><strong>Repayment</strong></td>
<td></td>
</tr>
<tr>
<td>Parent is responsible for repayment.</td>
<td>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.</td>
</tr>
<tr>
<td>Accrued interest capitalizes once at final repayment.</td>
<td>Accrued interest may be capitalized monthly, quarterly, or once at repayment.</td>
</tr>
<tr>
<td>Federally insured against death and disability for both the parent and the student.</td>
<td>Not federally insured against death and disability.</td>
</tr>
<tr>
<td>Opportunities available to consolidate PLUS Loans, interest rate capped at 8.25%.</td>
<td>Consolidation options becoming more available</td>
</tr>
</tbody>
</table>
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, mycredittedge.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

<table>
<thead>
<tr>
<th>Repayment Option</th>
<th>Option 1 Immediate Repayment</th>
<th>Option 2 Interest-Only Repayment</th>
<th>Option 3 Deferred Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Requested</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Origination Fee</td>
<td>(5.00%) $526.32</td>
<td>(5.00%) $526.32</td>
<td>(6.50%) $695.19</td>
</tr>
<tr>
<td>Principal Amount at Loan Disbursement</td>
<td>$10,526.32</td>
<td>$10,526.32</td>
<td>$10,695.19</td>
</tr>
<tr>
<td>Deferment Period</td>
<td>0 months</td>
<td>48 months</td>
<td>48 months</td>
</tr>
<tr>
<td>Monthly Interest Payment (while in school)</td>
<td>(included below)</td>
<td>$58.68</td>
<td>(deferred)</td>
</tr>
<tr>
<td>Principal Amount of Loan at Repayment</td>
<td>$10,526.32</td>
<td>$10,526.32</td>
<td>$13,948.35</td>
</tr>
<tr>
<td>Monthly Principal &amp; Interest Payment (after deferral period, if any)</td>
<td>$79.66</td>
<td>$79.66</td>
<td>$104.99</td>
</tr>
<tr>
<td>Repayment Period</td>
<td>240 months</td>
<td>240 months</td>
<td>240 months</td>
</tr>
<tr>
<td>APR</td>
<td>7.35%</td>
<td>7.24%</td>
<td>7.26%</td>
</tr>
<tr>
<td>Total Finance Charge</td>
<td>$9,118.40</td>
<td>$11,935.04</td>
<td>$15,197.60</td>
</tr>
<tr>
<td>Total Repayment Amount</td>
<td>$19,118.40</td>
<td>$21,935.04</td>
<td>$25,197.60</td>
</tr>
</tbody>
</table>
How to Compare Pricing

Great online tool: Education Loan Comparison Calculator, Nelliemae.com
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. We can be reached at:

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