

Undergraduate Study Guide:

What You Need to Know About Private Loans

SMART EDUCATION
FINANCING SOLUTIONS
FROM PNC BANK

Key Points

- > Private loans typically have variable interest rates, so payment amounts may go up or down over time.
- > The terms of any private loan will depend on your credit history.
- > You might get a better interest rate if your parent or someone with good credit co-signs your private loan with you.

How the Industry Sets Rates

Interest rates for many types of loans (including home loans, auto loans, credit cards and student loans) are based on one of two standard indices—Prime or LIBOR.

Prime Rate is the rate that banks charge their most reliable customers. The rate is almost always the same among major banks.

LIBOR (London Interbank Offered Rate) is the interest rate at which larger banks borrow funds from each other.

Once you've identified all sources of "free" money for school (like scholarships) and obtained your federal loans, if you still need more money for college, you may want to consider private loans. Private education loans are issued by financial services companies like banks and finance companies and are not guaranteed by a federal government agency. Terms for private loans vary significantly from lender to lender and from borrower to borrower, based on your and/or your family's credit history.

Types of Loans

There are two types of private loans—school-certified and direct-to-student.

School-certified private loans: Loans through your college are generally the best place to start, because interest rates are usually lower than direct-to-student private loans. These loans are "certified," meaning that the school signs off that the amount of the loan is appropriate for your education finance needs. Ask your college's financial aid office if they take part in a private loan program, or ask your bank or preferred lender if they offer education loans. With school-certified private loans, you usually get a decision right away, and the funds are quickly disbursed directly to your school to be applied toward your tuition and fees.

Direct-to-student private loans: This type of loan is between you and a lender, without any involvement from the government or your college. Funds are disbursed directly to you, and you can use the money for any college-related expenses. These loans typically have higher interest rates than school-certified private loans, but usually you can be approved and access your funds very quickly. The interest rate you will pay for your loan depends largely on your credit history.

CONTACT US FOR MORE INFORMATION

Phone: 1-800-762-1001

Web: pnconcampus.com

Email: eduloans@pncbank.com



Choosing a Loan

There are four things to consider when evaluating a private loan:

1. Interest rates
2. Fees
3. Repayment options
4. Lender discounts

Interest rates. Private loans have variable interest rates. This means your payments may go up or down during the repayment period.

Every lender sets rates a little differently, so it can sometimes be difficult to compare lenders and loan options.

In general, interest rates are based on one of two standard indices—Prime or LIBOR—which are the basis for many types of loans, including home loans, auto loans, credit cards and student loans. Rates can and do change often.

For student loans, lenders usually express rates as an index rate plus an additional amount or margin. For example, a bank may say they offer PRIME + 0% or LIBOR + 2.80%. Because different lenders use different indices and different margin rates, it can be difficult to compare loans. For example, “PRIME + 0%” sounds better than “LIBOR + 2.80%.” But if the Prime rate is higher than LIBOR (which it usually is), the LIBOR-based rate may be the better deal.

Lenders typically promote their lowest, most competitive interest rate; this is the rate that is available for borrowers with the best credit. Your rate may be different, depending on your credit history and on the repayment plan you choose.

The good news is that you may qualify for a lower interest rate if you apply for your private loan with a co-signer. Signing with a parent, grandparent or other creditworthy individual makes it safer for the bank to loan you money, so they can charge less interest. Co-signing means that you and your co-signer are both responsible for repaying the loan.

Fees. You may have to pay an origination fee or other processing fees when taking out a private loan. Origination fees are one-time charges,

expressed as a percentage of how much you want to borrow, and are based on your (and your co-signer’s) credit history. Fees typically get added to the requested loan amount.

Repayment options. Your lender will offer you a number of repayment options, including when you prefer to begin repayment (e.g., right away or after college graduation) and how long you plan to take to complete repayment. You should understand repayment rules well, because they can affect the total amount you’ll need to repay.

Lender discounts. Many lenders offer discounts on your interest rate if you have your payments automatically deducted from a checking or savings account. Read all the fine print to make sure a discount applies for the life of the loan. Even small discounts can result in big savings over time.

Private loans certainly have their place as part of your overall plan of paying for college. They can be a quick and convenient means of filling any remaining funding gaps. But it’s in your best financial interest to pursue other, less costly options first. If you must take out a private loan, always start by applying for school-certified private loans. Borrow only what you need, and make sure you feel well-informed about a loan before making your final decision.

Action Steps

- ✓ Pursue private loans last. They can be quick and convenient, but they may be a more costly alternative than federal loans.
- ✓ Evaluate lenders’ interest rates, fees, repayment options and discounts. Small differences can add up to big savings over time.
- ✓ Apply with a creditworthy co-signer. You’ll likely get a better rate, especially if you don’t have a strong or established credit history.

