



# EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

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[www.Edfed.com](http://www.Edfed.com)

## How to Pay Off Private Loans

While there are four universal repayment options for federal student loans, repayment options vary from lender to lender in the world of private loans. Generally speaking though, you have fewer repayment alternatives with private loans.

### **Repay Principal and Interest Immediately**

All private lenders offer you the chance to repay your student loans immediately. In most cases, you begin paying the debt 30 to 45 days after your loan is disbursed. This is the fastest way to eliminate your college loans and the best option to lower your overall student loan debt because you'll greatly reduce your interest charges by paying your debts immediately and not deferring any part of your payments.

Unfortunately, this option is the most rarely used one for students. Financial aid counselors say that 90 percent of all students elect to defer payments while they're enrolled in school, according to a report called "The Future of Private Loans: Who Is Borrowing and Why" from the Institute for Higher Education Policy.

### **Defer Principal and Make Interest-Only Payments**

Other private lenders permit you to make interest-only payments while you are a student, and defer making payments on the principal balance of your loans. If you can afford it, this is the next best option if you want to limit your overall student loan debt. By making interest-only payments while enrolled in school you eliminate the process by which unpaid interest is capitalized, or added to your total loan balance. The interest on some loans is capitalized quarterly and at the beginning of repayment. This is the case, for instance, with private loans provided by the Student Loan Network Program, which is backed by PNC Bank. With other private lenders, the interest on your loans will be capitalized one time, when you begin making payments. This is the case with private educational loans offered through Citibank.

### **Defer Principal and Interest and Pay Nothing While in School**

A third option commonly offered by private lenders lets you make no payments whatsoever while you are a student, deferring both the principal and interest on your loans. Again, this is the most commonly chosen path taken by students and it's easy to see why. This is often presented as the no-hassle option, which undoubtedly appeals to cash-strapped, busy students who may or may not be working. Among those students who are employed, their earnings are likely being used to pay living expenses or other necessities. So this "pay nothing now" option holds tremendous appeal.

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It's also the repayment option heavily marketed by private lenders who emphasize the ease and convenience of their student loans. But before you choose this option, make sure you run the numbers so that you see what your total loan amount will be upon graduation— after you've deferred all payments for four years or more.

So assume you borrowed \$10,000 in private loans, paid \$471.20 in loan fees, and deferred all payments while you were a student. With capitalized interest added to your student loans, your \$10,000 loan balance skyrockets to \$14,864.94. This is your new principal loan amount, sometimes called principal at repayment. This figure represents the original loan amount you originally requested, plus loan fees, plus interest that has been capitalized and added to the loan. If you take 20 years to pay off this loan, you'll pay an additional \$21,764 in interest, for a total repayment amount of \$31,764.

By repaying immediately and not deferring your payments, you can slash your interest charges by 45 percent— to just \$12,022.40.