



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

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Private Loans: An Alternative Source of Funding

If you're a freshman just entering college or a returning student, you are probably aware that you will need to find various sources to help you fund your education. You do have a few options, including one you may be hesitant to opt for. However, it may be a necessary choice, and there are some hidden benefits that you may not be aware of. Private student loans can bridge the gap between traditional sources of funding and the cost of attending your school.

Traditional Sources of Funding

First and foremost, you must work as hard as you possibly can to find *free* money for your education. Federal and state grant programs are the first place to look. Grants are free and do not have to be paid back. The Federal Pell Grant, for example, provides a maximum of \$4,310 for the 2007-2008 academic year. Next year, the Federal Pell Grant will be increased to \$4,731. Individual states may also provide grants. The Cal Grant, for example, is available to California residents and provides anywhere from about \$500 to almost \$10,000 depending on the type of grant awarded and the type of school a student is attending.

You can also investigate scholarships. Again, scholarships require a lot of time and effort. There are applications to submit, possibly essays to write, letters of recommendation to obtain, and most have deadlines. However, scholarships are an excellent source of free money that does not have to be paid back. Plus, some may be renewable, which means you have a guaranteed source of funding throughout your college career. Scholarships are everywhere. You just have to take the time to look for them. Non-profit groups, associations, private companies, foundations, government agencies, and many more types of organizations offer scholarships. Scholarships can be industry-based, offered by schools to attending students, offered to students of a certain socio-economic status, merit-based, region-based, or even for students who are left-handed. There's tons of free money out there. You just have to work hard to get it.

The next source of funding you should apply for are federal student loans. Federal student loans are generally a low cost option and in most cases provide students with higher amounts of funding. In order to apply for federal student loans, you will have to submit the Free Application for Federal Student Aid (FAFSA). This same form allows you to apply for federal grants as well.

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The Last Resort: Private Student Loans

If, after you have exhausted all other sources, you still need additional funds to pay for school, look into borrowing private student loans. Private student loans oftentimes offer higher amounts of money, and the funds can be in your or your financial aid office's hands in a short period of time. Also, private student loans can be applied for at any time, so you can get a quick loan if you are in the middle of a term and need additional funds immediately. Federal student loans are disbursed at the beginning of each term, so you generally have to wait for the money you need.

However, simply because private student loans come with high loan limits, that does not mean you should borrow the entire amount available. Rather, borrow only what is needed to cover the cost of attendance. Because private student loans generally carry variable interest rates and fees, borrowing too much can leave you under mounds of unmanageable debt upon graduation.

Still, don't let that deter you from borrowing private student loans. Private student loans are a great option to cover the gap between traditional sources of funding and the cost of college.

Benefits

A largely overlooked benefit of borrowing private student loans is the establishment of your credit upon applying. This is especially true for incoming freshmen. Rather than building credit by applying for multiple credit cards, which are tempting to use to splurge, private student loans establish credit early on. Paying for school using credit cards is not a smart move, as the interest rate may be higher and payments cannot be deferred. Private student loans generally can be deferred while in school, so you will not have to make payments while you are attending school. Plus, interest paid on private student loans can be tax-deductible.

Private student loans may not carry all the benefits of free money in the forms of grants and scholarships, or even all the benefits of federal student loans. However, private student loans are a readily available option in the event that traditional sources of funding are not sufficient to cover the cost of attending college.