



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

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

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www.Edfed.com

Comparing Private Student Loans

The average cost of attending a four-year public university is \$6,185 per year. That cost almost quadruples for a private university, with the cost of attendance averaging \$23,712 per year. More often than not, federal aid doesn't cover the entire cost of college. The Federal Pell Grant totals \$4,310 for the 2007-2008 academic year. Federal Stafford Loans total \$3,500 to \$20,500, depending on a student's year in school and her/his classification (dependent or independent). Based on these numbers, an entering freshman can only receive a total of \$7,810 in federal aid (if s/he qualifies for a Federal Pell Grant). This aid does not come close to covering the cost of attending a private university.

With the limited amount of federal student aid available to students, private student loans have become a necessary source of funding. Private student loans usually have higher loan limits than federal student loans, enabling students to fill the gap. When choosing private student loans, borrowers are well advised to compare lenders and programs. Read on to learn about what to look for.

The best private loans for students

First and foremost, students should only considering borrowing private student loans if they have exhausted all other sources of funding. These sources of funding include grants and scholarships, free money that does not have to be paid back; federal aid, such as Federal Stafford Loans and work-study; and any monetary gifts from relatives.

If all these sources of funding are still not sufficient to cover the cost of attending college, then it's time to look into borrowing private student loans. The best private loans offer low interest rates and minimal fees. A low interest rate with higher fees may cost more overall. Try to find a balance between a reasonable interest rate and the lowest fees possible.

Interest rates on private student loans are determined by a base rate and a margin determined by a credit history report. The best private student loans are the ones that are tagged to the LIBOR interest rate. The LIBOR interest rate has generally been lower than the other common interest rate used in private loan programs, the Prime interest rate.

The interest rate is not the only feature to look for. Find out whether the lender offers favorable terms, such as deferment and forbearance options and flexible repayment options. The programs that offer terms that benefit students the most are generally the loans that should be considered.

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Items to compare

Take some time to organize the information you find. Developing a chart similar to the one below will help you compare the key terms of the loan programs.

Lender Name	Loan Name	Loan Limit	Rates	Fees	Term
ABC Lender	ABC Loan	\$30,000	2.0% to 10.0%	0.0% to 3.0%	30 years

You may also want to include any borrower benefits the lenders offer. A common borrower benefit is a 0.25% interest rate reduction for making payments using auto-debit. Borrower benefits such as these encourage borrowers to maintain good repayment habits.

A few other things to consider are whether the private student loan is only offered to state residents. If a cosigner is used, does the lender allow the individual to be released from the loan after a certain number of on-time payments? Another aspect to investigate is how quickly you will receive funds. Some programs require schools to certify loan requests, while other programs disburse funds directly to borrowers. The safest options are private student loans that are certified by schools. This deters students from over-borrowing and thus taking on more debt than is necessary.

Ask a lender for full terms prior to submitting any application. Some lenders may hesitate to provide this information because the full terms may reveal their loan program is not as favorable as their website makes it out to be. If this is the case, then borrowers may want to steer away from such lenders and opt for a lender who is more forthcoming in providing loan details.

Conclusion

Private student loans are credit-based and are similar to any other consumer loan. If at all possible, borrowers and potential cosigners should obtain a copy of their credit reports prior to applying for a private student loan. Any blemishes can then be corrected in order to receive the best terms possible. However, this may not be an option if the student is in need of funds immediately.

So, before borrowing any private student loan, compare the terms and carefully review what you will be signing off on. These loans will be with you for years to come. Make educated choices now so you're finances will be spared in the future.

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¹articles.moneycentral.msn.com/CollegeAndFamily/CutCollegeCosts/CollegeForHalfPrice.aspx

² www.studentaid.ed.gov/PORTALSWebApp/students/english/PellGrants.jsp

³ www.studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp

⁴ To apply for federal student aid: www.fafsa.ed.gov/

⁵ www.bloomberg.com/markets/rates/

⁶ www.federalreserve.gov/releases/H15/

⁷ www.annualcreditreport.com/cra/index.jsp

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