

Private Student Loans

A Guide to Responsible Borrowing



Research

Explore Your Options

Private student loans are consumer loans made to individuals to help pay for college. They are provided by for-profit and nonprofit lending organizations and are not backed by the federal government. Private student loans are designed to supplement, not replace, other financial aid sources to fill funding gaps. Only borrow what is needed to cover your educational expenses.

Work with the financial aid office at your school to look into sources of federal, state and/or school aid prior to getting a private student loan. If you have already done this and are still unable to cover your expenses, a private student loan may be a good option. Generally, they are less expensive than unsecured consumer credit (such as credit cards). If you require a private student loan, do not wait until your tuition bill is due to apply for one, because you may receive less favorable terms and conditions.

Most programs allow borrowers to delay payments during school and offer hardship deferments during repayment. These options often increase the total amount you will pay, because interest charges will accrue during deferment periods. Some private student loans require a cosigner (a person who promises to become legally responsible to pay your debt if you fail to do so). If you are considering a variable or LIBOR rate loan, understand that rate changes may not be in your favor and could result in an increased monthly payment.

Read all material provided to you by your lender, and ask about things you do not understand. Most private student loans are made by responsible lenders—and all are regulated by consumer credit laws. Get to know your lender prior to borrowing, because your relationship with them will be a long-term one. Visit the Better Business Bureau at www.bbb.org, ask your financial aid officer and talk to others who have worked with the lender so that you can make an informed decision.

Remember

Understand Your Obligation

You must repay your student loans—even if you do not graduate or get a job in your chosen field. Failure to make scheduled payments could lead to default, which would damage your credit rating and lead to other serious consequences.

Before you borrow a private student loan, think about whether you will be able to repay it. This loan will reduce what you can spend in the future on a car, home, furniture and other living expenses. Here are some things you can do while you are in college to help save money:

- **Identify needs versus wants and make your purchases accordingly.**
- **Make a realistic budget and stick to it.**
- **Take advantage of work-study opportunities or get a part-time job.**

Can You Afford a Private Student Loan?

Ask yourself whether a job in your chosen field will allow you to make your monthly payments on your student loans.

Use a student loan repayment calculator, such as the one at www.mappingyourfuture.org, to help you estimate the total amount of interest you will pay, what your monthly student loan payments will be, and how long it will take to repay your loans.



Repay

Uphold Your Promise

Repaying your student loans is a serious legal obligation, so you need to set aside enough money to make your student loan payment on time and in full each month. Your lender will depend on you to uphold your promise to repay so that they can make loans to other deserving students. By paying your student loan on time, you will be acting as a responsible borrower. You will also be successfully managing your finances and establishing good credit.

Some loans offer a grace period when you graduate, leave school or drop below part-time status. During the grace period, you are not required to make monthly payments. In most instances this will increase the amount that you will pay on your loans as interest charges are increasing on your loan(s), so check with your lender. At the end of your grace period, you must begin making monthly payments.

Contact your lender if you are unable to make your monthly payments. You may qualify for other repayment options, or be able to postpone or reduce your payments by applying for a deferment or forbearance. These should be used only in times of extreme need and will increase the amount that is eventually repaid on your loan

Pay Your Interest

Consider making monthly payments while in school. If you do not, the interest will accrue and be added to the amount you borrowed, costing you more in the long run. A few dollars paid each month on your private student loan will save you money over time.



A Note to Parents

The more you can help pay for college, the less debt your child will have down the road. If you do not have the funds, consider borrowing on behalf of your child (e.g., with a Federal PLUS Loan) or cosigning on your child's private student loan. Generally, a cosigned loan has lower rates and fees.

File a Free Application for Federal Student Aid (FAFSA) You and your child should file the FAFSA every year, even if you do not think you will qualify for federal aid.

Federal Student Loans

Federal student loans are government-backed, or guaranteed. They are low-cost, fixed-rate loans that help students and/or parents cover a portion of their school expenses. Federal student loans have certain discharge and loan forgiveness options not generally available under private student loan programs.

- Federal Stafford Loans are made to students (rather than parents) and have annual loan maximums based on the student's year in school. Subsidized Stafford Loan interest is paid by the government for low-income students during in-school and authorized deferment periods.
- Federal PLUS Loans are made to parents of dependent, undergraduate students and can cover all costs remaining after other forms of student aid are applied.
- Federal Graduate and Professional PLUS Loans are made to graduate and professional students and can cover all costs remaining after other forms of student aid are applied.



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