

# Alternative Loan FAQ's

## **What is an alternative loan?**

An alternative loan is a non-federal education loan offered by private lenders. Alternative loans require a credit check of the borrower and/or cosigner. The interest rate is variable and can change as often as monthly during the life of the loan. Alternative loans cannot be consolidated under the Federal Consolidation Loan Program.

## **Should I apply for an alternative loan?**

Alternative loans are intended to be used to fill the gap between your resources, including awarded financial aid, and your cost of attendance. If your grants, scholarships, federal loans and family savings are not enough to finance your education, an alternative loan may be an option.

## **Which lender should I choose?**

You may select any lender of your choosing. However, during the online application you will be able to view a chart with all the lenders that Hamline University students have used in the past three years that are still offering student loans. This chart also includes some comparison information to help in your decision-making process.

## **What should I consider when choosing a lender?**

There are a number of things to consider: What are the eligibility requirements and do I fit them? What is the interest rate, how is it calculated and how often can it change? Will I be charged a fee upon origination or at repayment? What are the repayment terms? Are there any required in-school interest payments? How is their customer service? It is a good idea to review a number of different lenders' terms before making a final decision.

## **Do I need a cosigner?**

Maybe. Undergraduate students, international students and students with little or negative credit history will likely need a cosigner. Some lenders may require all students to use a cosigner. However, sometimes you can receive a lower interest rate if you use a cosigner even if one is not necessary. Check with your lender for details.

## **How much am I eligible to borrow?**

The maximum amount you can borrow is your cost of attendance minus all sources of financial aid. Your maximum eligibility will be listed on your award letter. Remember this is a loan that will need to be paid back, so borrow as little as you need.

## **I applied for an alternative loan. Now what happens?**

Stay in contact with your lender to be sure that they have everything they need to approve your loan. Hamline usually receives notification from your lender once your loan has been officially approved. At that point we will certify the loan. Once all of the pieces have been completed by you and Hamline, there is a rescind period that the lender is required to offer before they can disburse the funds to Hamline. The length of the rescind period varies by lender.

## **How long does the application process take?**

Allow a minimum of 3-4 weeks for your alternative loan to be processed. The timing can vary depending on the follow-up required by the lender to approve your loan. Be sure to respond promptly to all requests in order to speed up the process.

## Alternative Loan Checklist

*Use this checklist as a guide for questions to ask when speaking with a lender.*

### **☐ How much in total loan fees will I pay?**

Most lenders charge fees at disbursement, but some may charge additional fees at repayment. Because repayment fees are charged on a higher principal balance (after interest has accrued), they add significant cost to your loan.

### **☐ What is the current interest rate and how is it calculated?**

Most student loan rates are variable. They are typically based on a Prime or LIBOR rate plus a margin. Choose a loan based on a rate that is familiar and comfortable to you.

### **☐ How long do I have to repay the loan?**

Lenders typically allow you to repay your loan in 10, 15 or 20 years. For the most flexibility, seek a lender with a long repayment period and no penalty for early repayment.

### **☐ Do you have deferment options?**

Many loan programs allow you to defer payments while in school. If this is important to you, make sure the lender you are considering offers this feature without fees.

### **☐ Do I have a grace period with this loan?**

Typically, lenders will not require any payments as long as you are attending an eligible school at least half time. You may have to start repayment on your loans six months after graduation, leaving school or dropping to less than half-time enrollment. Be aware that some lenders require minimum interest payments while you are in school.

### **☐ What are your eligibility criteria?**

In addition to requiring a positive credit history, most lenders will require that you enroll at least half-time and be seeking a degree. If you need more flexibility, look for programs open to all students.

### **☐ How and when do you capitalize interest?**

When you defer payments while in school, the accrued interest is periodically capitalized (added) to the principal balance of your loan. To keep your costs down, look for a lender that capitalizes only once at repayment.

### **☐ Repayment assistance?**

Some lenders offer payment counseling and assistance if you have difficulty repaying your loan. It is important to choose a lender who is committed to supporting student loan borrowers long after the loan is made.

## Federal Direct PLUS Loan and Alternative Loan Comparison Chart

	<i>Federal Direct PLUS Loan</i>	<i>Alternative Loan</i>
<b><i>Borrower</i></b>	Parent (Parent PLUS) or Graduate Student (Graduate PLUS)	Student (may need cosigner)
<b><i>Fixed/Variable Interest Rate</i></b>	Fixed	Variable
<b><i>Interest Rate</i></b>	7.9%	Determined based on credit of borrower and/or cosigner
<b><i>Credit Requirements</i></b>	No adverse history	Determined by lender income requirements, FICO, credit history, etc.
<b><i>Borrowing Limits</i></b>	Up to Cost of Attendance	Determined by lender and may not exceed the Cost of Attendance
<b><i>Fees</i></b>	Effective July 1, 2010: 4.0% origination fee*	Determined by the lender

\* A 1.5% interest rebate reduces this fee to a net of 2.5%. Once repayment begins you must make 12 on-time monthly payments to retain this benefit.