



Private Loan or Federal Loan?

Know the Facts *Before* You Borrow Through a Non-Federal Loan Program to Fund Your OSU Education

Before considering a private loan, be sure you have exhausted all other funding options. Federal law sets the maximum interest rates and fees you can be charged for a federally-guaranteed education loan. Private loans (sometimes called alternative loans) are not part of the federal government guaranteed student loan program, and are more costly to students. Be sure you know the facts before you borrow.

Federal Student and Parent Education Loans:

- Are guaranteed by the federal government;
- Provide borrower protections such as guaranteed rates on interest and loan fees and flexible repayment options;
- Are available to both students and parents (Subsidized/Unsubsidized/PLUS Loans);
- Are included in the IRS definition of loans that qualify for educational loan interest deduction on federal income taxes;
- Provide a variety of deferment options and extended repayment plans.
- Can be consolidated at repayment;
- If a Parent Loan is denied due to credit issues, the student may be eligible for additional funding through the Federal Unsubsidized Loan Program.

Non-Federal Private/Alternative Loans:

- Are credit-based loans made by a lending institution (students and parents with the least favorable credit history are charged the highest interest and fee rates);
- Cannot be consolidated;
- Don't offer the same protections (guaranteed interest rate, options to delay repayment or change repayment conditions, etc.) that the federal loans offer;
- Are more expensive than federal loans (for both student and parent borrowers);
- Don't qualify for IRS interest deduction on federal income tax return.

Non-Federal Direct-to-Consumer Private Loans:

- Are often advertised in pop-up ads or direct mailings;
- Have no regulations on how interest and repayment options are made or changed;
- Are more expensive than federal loans (for both student and parent borrowers);
- Are more like a credit card than an educational loan;
- Are credit-based loans made by a lending institution (students and parents with the least favorable credit history are charged the highest interest and fee rates);
- Cannot be consolidated;
- Don't offer the same protections (guaranteed interest rate, options to delay repayment or change repayment conditions, etc.) that the federal loans offer.
- Don't qualify for IRS interest deduction on federal income tax return.

Questions?

We welcome the chance to discuss the benefits of federal financial aid funding instead of private loans. If you have any questions, please don't hesitate to contact us:

OSU Office of Scholarships and Financial Aid
119 Student Union, Stillwater, OK 74078
Email: finaid@okstate.edu
Web: www.okstate.edu/finaid
Phone: 405-744-6604



Private Loan or Federal Loan?

Know the Facts *Before* You Borrow

Be sure you know the facts! Learn the terms and conditions of a private/alternative loan **BEFORE** you sign the promissory note. Make sure you have exhausted all funding resources before considering a private/alternative loan. IF you borrow through a private/alternative loan program, keep written records of all forms, applications, and correspondence with your lender, especially regarding discounts and special deals, for the entire life of your loan.

	Federal Subsidized Loan	Federal Unsubsidized Loan	Federal Parent Loan	Private/Alternative Loan
What is the lowest interest rate and fee combination you offer?	Interest Rate: 3.4% (undergraduate) 6.8% (graduate) (0% interest while in school and during 6-month grace period) Fees: 1% origination fee All borrowers qualify for the same interest and fees.	Interest Rate: 6.8% Fees: 1% origination fee All borrowers qualify for the same interest and fees.	Interest Rate: 7.9% Fees: 4% origination All borrowers qualify for the same interest and fees	Interest Rate: Variable; based on PRIME or LIBOR, or the 91-day Treasury Bill plus a margin; <i>margin may be based on credit history.</i> Lowest: PRIME*-0.50% Highest: PRIME + 9.75% Fees: 0%-11%, <i>may be based on credit history</i> *PRIME is currently 3.25%
Is the rate only for a limited period (an introductory rate), or for the duration of the loan?	Guaranteed rate		Guaranteed rate	It is not uncommon for lenders to advertise a lower rate for the in-school and grace period, with a higher rate in effect at repayment.
If the interest rate is variable, is there a limit on how high the it can go?	NA		NA	No
How often is the interest rate adjusted?	NA		NA	Variable
How is the interest rate determined?	Set by Congress		Set by Congress	Determined by individual lender, not regulated by Congress.
What rate can I get on a fixed rate loan?	3.4% Subsidized Loan (undergraduate) 6.8% Subsidized Loan (graduate) 6.8% Unsubsidized Loan		7.9%	Varies by lender – some give borrowers the choice of variable or fixed
How long will I be repaying the loan?	Standard repayment is fixed monthly payments over 10 years. Other payment plan options include: <ul style="list-style-type: none"> • Graduated Repayment Plan: payments start at one level and increase every two years, with full repayment in 10 years. • Extended Repayment Plan: repayment period is 25 years, regardless of the amount of the borrower’s loan debt • Income Contingent Repayment Plan: monthly payments based on yearly income, family size, and loan amount; maximum repayment period is 25 years. 		Standard repayment is fixed monthly payments over 10 years. Other payment plan options include: <ul style="list-style-type: none"> • Graduated Repayment Plan: payments start at one level and increase every two years, with full repayment in 10 years. • Extended Repayment Plan: repayment period is 25 years, regardless of the amount of the borrower’s loan debt. 	Variable for each product; can be 0-20 years. There is no repayment plan based on income available.
Is there any penalty for paying off the loan early?	No		No	Varies by lender

	Federal Subsidized Loan	Federal Unsubsidized Loan	Federal Parent Loan	Private/Alternative Loan
When do I have to start making payments?	6 months after you graduate or cease to be enrolled at least half-time.		60 days after the loan is fully disbursed. For loans borrowed beginning in 2008-2009, parents can request in-school deferment (no payments required while the student is in school at least half-time).	Varies by lender
Can I consolidate this loan with other federal loans when I begin repayment?	Yes		Yes – with other Parent Loans	Generally no
How long can I defer payments while I'm in school?	No payments required while in school at least half-time.	No payments required while in school at least half-time, but you are encouraged to make voluntary interest payments as possible while you are in school.	Repayment begins 60 days after the final loan disbursement; However, for Direct PLUS Loans with a first disbursement date on or after July 1, 2008, the parent may defer repayment: <ul style="list-style-type: none"> • while the student on whose behalf the parent borrowed the loan is enrolled on at least a half-time basis, and • for an additional six months after the student ceases to be enrolled at least half-time. 	Generally, lenders offer students the option to defer payments while in school.
What if I go to graduate school after my bachelor's degree?	Remains in deferment, with no interest accrual as long as you are enrolled in a degree-seeking program at least half-time.	Remains in deferment, but interest accrues, as long as you are enrolled in a degree-seeking program at least half-time.		Varies by lender
When do you capitalize interest?	NA	At repayment	At repayment	At repayment
If I do not make payments while in school, how much will I owe when I do start making payments?	No interest accrues while in school – repayment amount is the same as the original loan amount.	See “Financial Comparison Between Federal and Private Loans” chart.	NA	See “Financial Comparison Between Federal and Private Loans” chart.
Are discounts guaranteed (are they included in the actual promissory note)?	Guaranteed		Guaranteed	No
If I have difficulty making payments (“economic hardship”), do you allow me to defer or reduce my payments temporarily?	Yes – Forbearance		Yes – Forbearance	At lender discretion; some lenders offer private loan forbearance for a maximum of 12 months.
What percentage of borrowers actually receive the lowest interest rate advertised?	100%		100% Rate is not based on your credit rating	Varies by lender and product and may be based on credit rating.
Is there any option to have my loan discharged?	Yes – including for some bankruptcy cases, borrower's total and permanent disability or death, teaching in designated elementary or secondary schools for five consecutive years, death of borrower, and more.		Yes – in the case of death of the student for whom the parent borrowed or in the case of death of the borrower.	Varies by lender - in the case of death of the borrower

This comparison was prepared on the basis of the best information available at the time it was printed (July 2011) and is subject to change without notice or obligation.. If you have any questions, please contact the Oklahoma State University Office of Scholarships and Financial Aid by email to finaid@okstate.edu, or by phone at 405-744-6604. You can also find this information on the web at <http://www.okstate.edu/finaid/loans>.

Financial Comparison Between Federal and Private Loans

Amount Borrowed	Type Loan	Credit Rating	Interest Rate	Type of Interest	Frequency of Interest Capitalization	Fees and Type	Repayment Months	Monthly Payment	Interest and Fees per \$1 Disbursed	Total Interest and Fees	Total Repaid
\$ 10,000	* UG Federal Subsidized	N/A	3.40%	Fixed	None	1.0% at disbursement	120	\$ 99.41	\$ 0.19	\$ 1,929.52	\$ 11,929.52
\$ 10,000	* Grad Federal Subsidized	N/A	6.80%	Fixed	None	1.0% at disbursement	120	\$ 116.83	\$ 0.39	\$ 3,949.27	\$ 13,949.27
\$ 10,000	Federal Unsubsidized	N/A	6.80%	Fixed	None	1.0% at disbursement	120	\$ 116.83	\$ 0.39	\$ 3,949.27	\$ 13,949.27
\$ 10,000	Direct Parent PLUS	Excellent/Good/Fair	7.90%	Fixed	Repayment	4% at disbursement	120	\$ 125.83	\$ 0.51	\$ 5,100.18	\$ 15,100.18
\$ 10,000	Graduate PLUS	Excellent/Good/Fair	7.90%	Fixed	Repayment	4% at disbursement	120	\$ 125.83	\$ 0.51	\$ 5,100.18	\$ 15,100.18
\$ 10,000	Private	Excellent	Prime + 1%	Variable	Repayment	none	120	\$ 102.44	\$ 0.23	\$ 2,292.43	\$ 12,292.43
\$ 10,000	Private	Excellent	Prime + 2% or 3m LIBOR + 4.75%	Variable	Repayment	none	120	\$ 107.29	\$ 0.29	\$ 2,875.07	\$ 12,875.07
\$ 10,000	Private	Excellent	Prime + 3% or 3m LIBOR + 5.75%	Variable	Repayment	none	120	\$ 112.28	\$ 0.35	\$ 3,473.62	\$ 13,473.62
\$ 10,000	Private	Good	Prime + 4% or 3m LIBOR + 6.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 124.89	\$ 0.50	\$ 4,987.63	\$ 14,987.63
\$ 10,000	Private	Good	Prime + 5% or 3m LIBOR + 7.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 130.48	\$ 0.57	\$ 5,657.88	\$ 15,657.88
\$ 10,000	Private	Good	Prime + 6% or 3m LIBOR + 8.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 136.21	\$ 0.63	\$ 6,344.22	\$ 16,344.22
\$ 10,000	Private	Fair	Prime + 7% or 3m LIBOR + 9.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 142.06	\$ 0.70	\$ 7,047.78	\$ 17,047.78
\$ 10,000	Private	Fair	Prime + 8% or 3m LIBOR + 10.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 148.05	\$ 0.78	\$ 7,766.46	\$ 17,766.46
\$ 10,000	Private	Fair	Prime + 9% or 3m LIBOR + 11.75%	Variable	Repayment	0% to 6% at disbursement and/or repayment	120	\$ 154.17	\$ 0.85	\$ 8,500.42	\$ 18,500.42

Notes: * Interest for a Federal Subsidized loan will be paid by the Federal Government while a student is enrolled at least half time.
 The current Prime Interest Rate is 3.25%; therefore if the interest is prime +1%, the interest rate is 4.25%
 The current 3 month LIBOR rate is 0.25%; therefore if the interest is 3 month LIBOR + 4.75%, the interest rate is 5%
 The repayment term for private loans can be as long as 180 months, although the chart only reflects 120.
 Calculations for private loans with a credit rating of Good and Fair assume a 6% fee will be applied.
 All calculations are approximate numbers