Consumer Reports How to Choose a Private Student Loan

Use private student loans to pay your college costs only after you have exhausted your federal loans. Federal loans are less expensive than private loans. The most common federal loan is a Stafford loan, and it has a fixed interest rate of 6.8%. Nearly everyone is eligible. To apply for federal loans, go to http://www.fafsa.ed.gov.

Instructions: Answer the questions below for each loan you are considering. To determine the lowest cost loan, we recommend that you minimize both the APR (Step 2) and the total amount repaid (Step 3), while marking sure you can afford the monthly repayment (Steps 4 & 5). Federal law requires lenders to provide you with information that can answer each question. Ask the lender for this information in writing if you have not received it.

Step 1: Loan Facts. Write each lender's name.	1._____	2._____	3._____
How much am I borrowing? This amount is called the **Principal**. Write the Principal.	$_____	$_____	$_____
What fees will the lender deduct when I get the loan? Write the fees. If the fees are expressed as a percentage of the Principal, multiply the percentage x the Principal.	$_____	$_____	$_____
What is the interest rate? Write the rate.	_____%	_____%	_____%
Step 2: Compare Annual Percentage Rates (APRs). The lower the APR, the less interest and fees you will pay.			
What is the **APR**? The APR is the total cost of the loan including the interest rate and any fees, expressed as an annual percentage of the Principal. Write the APR.	_____%	_____%	_____%
Step 3: Compare the repayment periods. The longer it takes to pay off the loan, the more you will repay in total.			
How long is the grace period? This period usually begins when you sign up for loan and ends up to 6 months after you graduate. You do not have to repay the loan during this period. Interest still accumulates, however, and is added to the Principal. Write the number of months in the grace period.	_____months	_____months	_____months
When do I start repayment? Write the month and year you must start repayment.	____, 20__	____, 20__	____, 20__
How long will it take to repay the loan after the grace period ends? This is called the **Term**. Write the Term.	_____years	_____years	_____years
Can you pay off the loan before the Term ends without paying a penalty? Circle Yes or No and write the prepayment penalty.	Yes or No _____	Yes or No _____	Yes or No _____
Step 4: Ensure affordable monthly repayment amounts. We recommend that you try to keep your total student loan payments to less than 8% of your gross income (income before taxes). If you have the resources, repay the interest that accumulates while you attend school. Doing so will lower the total cost of the loan.			
What is the monthly payment once the grace period ends? Write the monthly repayment amount.	$_____/month	$_____/month	$_____/month
What is the total amount repaid at the end of the term? To estimate this amount, use a calculator to multiply the monthly payment x 12 x the Term. Write the total amount repaid.	$_____	$_____	$_____
Step 5: Plan for contingencies. If the loan has a variable interest rate, your monthly payment changes as the interest changes. Make sure you can afford the monthly payment if the rate goes up to its maximum.			
Is the interest rate fixed or variable? Circle the answer.	Fixed or Variable	Fixed or Variable	Fixed or Variable
If the rate is variable, is there a cap? A cap prevents the rate from going above a certain level. Write the cap. If no cap, write 24%.	_____%	_____%	_____%
What would the payment be if the rate goes up to the cap? To estimate this amount, add the cap (*e.g.*, 0.24 for 24%) to 1. Use a calculator to multiply that number (*e.g.*, 1.24) by the Principal, then divide by 12 for the monthly payment. Write the payment.	$_____/month	$_____/month	$_____/month