



## Choosing the Right Education Loan

### Borrowing Wisely

Many students and parents find it necessary to borrow money to help pay for college. If you plan to borrow, it is important to borrow wisely and as little as possible without sacrificing the scope or quality of your education. Every dollar you borrow now must be paid back later with interest - which will have a definite impact on your life after college.

Think about it – if you borrow \$2,500 a semester during four years of college, what you pay back could be nearly \$250 per month for 10 years. Plus you'll be paying nearly \$10,000 additional dollars in interest. In practical terms, you'll be paying a \$250 per month until you're 32 years old. Imagine if you borrowed \$5,000 per semester – a \$500 per month loan payment could make a real difference in what you can afford to buy after graduation. The debts you have and how you handle them influence your credit history which is used to determine the decision you'll get on future loans.

### Choosing the Right Loan

There are different types of education loans and the one you pick can make a real difference. Federal loans usually have lower interest rates than private loans and can offer extra ways to reduce the amount you pay. The repayment period for federal student loans doesn't start until after you leave college and allows you at least 10 years to pay. There are federal loans for your parents too. Two good reminders – borrow federal loans first and borrow only what you really need for college.

### Understanding Your Loan

You probably realize by now that a loan is something you will carry with you for quite a while – typically 10 years or more. That's why you should be sure to know:

- Is your loan a federal or an alternative (private) loan?
- What is the loan interest rate? Is it the same for every borrower?
- Will you be required to make loan payments or pay interest while you are enrolled?
- If you do not pay interest, how often will interest be capitalized or added to the remaining interest on your loan?
- Will the lender making your loan service it also or will your loan be sold or transferred for service once it is made? Who will your servicer be?

- How easy is it to access the lender and servicer by web, phone or in-person with questions?
- At the time your loan is being made, are there any credits or fee waivers to save you money? If so, what are they and how do you qualify?
- During repayment, are there ways to reduce your interest rate or principal if you make your payments on time or pay by automatic draft? If so, by how much?
- Are you guaranteed to keep the borrower benefits originally received on your loan as long as you continue to meet eligibility requirements?
- What repayment options are available?
- What will be the total cost of your loan?

If you have sizable loans, even a one-quarter percentage point reduction will save you money over the life of the loan. Also, as you consider cost, remember, when interest is capitalized, you end up paying interest on your interest, as well as on the principal amount of the loan. Frequent capitalizations mean you pay more interest over the life of the loan.

When it is time to start repaying your education loan or loans, make sure you keep in touch with your loan servicer. If you encounter any difficulty making payments, contact your servicer immediately. You may be eligible for a more flexible repayment schedule or even a reduction or temporary break from making payments.

Another possibility for lowering your payments is to consolidate your loans. A consolidation loan can put several loans together to give you one loan with an averaged interest rate and a longer repayment schedule. While loan consolidation may ease your repayment schedule, it will cost you more in the long run.

Be sure to keep in touch with your loan servicer throughout repayment. They will ensure that you consider all repayment options before making the choices that are best for you.

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