

Alternative Loan Guide

What is an Alternative Loan?

Alternative loans are private educational loans offered by banks and education lenders to fund education expenses. These loans are designed to help fill the gap between the financial assistance you are offered at Northern Arizona University (including federal loans plus any additional scholarships and grants) and the total cost of attending school. These loans are not need based and are not awarded directly by Northern Arizona University. Remember, a loan is a debt that must be repaid. Please be sure to borrow wisely.

How much can a student borrow?

The actual amount a student or parent can borrow varies according to each student's individual financial circumstances. Other variables include the institutional cost of attendance, financial aid resources, and loan limits imposed by the lender. At no time shall your alternative loan amount plus financial aid exceed NAU's cost of attendance. *Most alternative loan programs require that your school certify the amount you are borrowing.*

Who is eligible?

Unlike federally guaranteed student loans, lending institutions that offer alternative student loans may impose certain requirements. In most cases a student must have a good credit history, a low debt to income ratio, and sometimes a co-signer. Since a credit check will probably be required, not everyone is approved for an alternative loan.

How are funds disbursed

All proceeds are distributed through NAU. The proceeds are applied first to the student's outstanding balance (if applicable), and any remaining funds are disbursed directly to the student.

Things to consider when choosing an alternative loan program:

Although an alternative loan is a convenient source of additional funding for education, it is important to budget and borrow carefully:

- Consider ways to keep your costs down in order to limit your total loan debt.
- Once you decide to borrow, borrow only what you need, because you must repay loans, with interest.

- Before you borrow, it is wise to estimate both the amount of debt you may be able to afford and the potential monthly loan payment you can expect after you graduate.

Also, take very seriously the responsibility of borrowing and repaying an educational loan:

- Be sure to read and understand the terms and conditions on your promissory note. You are agreeing to repay the loan with all accrued and capitalized interest and deducted fees.
- It is your responsibility to read and keep all your records and to contact your lender regarding any changes in your status as a student.
- You are obligated to repay your loan regardless of whether you complete your education, are satisfied with your education, or are able to find a job.
- How conscientiously you make payments on your student loan will affect your ability to borrow for a car, a house, or other purchases in the future. If you are late with your student loan payments, it will have a negative affect on your credit history. On the other hand, repaying your student loan on time can help you establish and maintain an excellent credit history.
- Alternative loans **cannot** be consolidated with Federal Direct Loans.

ALTERNATIVE LOAN CHECKLIST

Use this checklist of things to ask when speaking to a lender:

- How much in total loan fees will I pay? – Most lenders charge fees at disbursement, but a few 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 T-Bill rate or the Prime Rate. 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 you 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 repaying your loans six months after graduation, leaving school or dropping to less than half-time enrollment

- What are your eligibility criteria? – In addition to requiring a positive credit history, most lenders will require that you enroll at least half time or full time and 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.