



Student Lending: Some Facts to Consider

You've worked hard in school and all that work has paid off—you've been admitted to the college of your choice. Now you have a new challenge: how are you going to pay for your education?

Fourteen million student financial aid applications are processed each year. If you or your parents apply for student loans, here are some basics to keep in mind and questions to ask of your school and lender. To apply for student financial assistance, students complete a Free Application for Federal Student Aid (FAFSA). Students use this application to apply for federal student grants, work study aid and loans as well as most state and private aid.

Facts to consider—some basics.

If you have been awarded financial aid at your school, you will receive a financial aid award letter. This letter may contain a range of financial aid options, including grants (which you do not have to pay back), loans (which you do have to pay back) and work-study (employment at the school). Among the loans that may be offered to you are Stafford loans (either subsidized or unsubsidized) and PLUS loans (usually taken out by either parents of undergraduates or by graduate students themselves). These loans are guaranteed by the federal government and are known as Title IV loans. In addition, your award letter, or your school's financial aid office, may suggest that you finance a part of the cost of attendance with alternative loans from private lenders. These loans are neither subsidized nor guaranteed by the federal government.

Under federal law, you have the right to use the lender of your choice.

Many schools have so called "preferred lender" lists. These are lenders that the school has decided to recommend to their students. However, you should be aware that just because a lender is on the "preferred lender" list, that does not mean that the particular lender is the best one for you to use. A student loan is a serious commitment and you should do your own research to find the loan with the best terms for you. Ask your financial aid officer how they chose preferred lenders for the list. Ask questions such as:

- How were the preferred lenders selected?
- What benefits do the preferred lenders offer the students?
- What benefits or payments do lenders offer the school?

Remember, when completing a Master Promissory Note for a student loan, you are entitled to choose your letter. If the Note is pre-printed or has an electronic drop-down menu, you should be able to add a different lender. If you are not permitted to insert your chosen lender, please call the Attorney General's consumer hotline at the telephone numbers below.

The interest rates for Stafford and PLUS loans are set by federal law.

Accordingly, many lenders compete on repayment benefits—on the “back-end” of the loans. For example, one lender will offer to cut your rate 1.5% if you make 24 on-time payments in a row, while another will offer to cut your rate 2% if you make 36 on-time payments in a row. Although this competition is legal, keep in mind that many lenders sell their loans on a secondary market. This means that even if you select Bank A as your lender, Bank A may turn around and sell your loan to Bank B. It is important to make sure that if your loan is sold, the “back-end” benefits will travel with the loan. In some instances, the sale of the loan will terminate the very benefits that caused you to take out that particular loan in the first place! To preserve these benefits, have your lender commit to them in writing. If your lender refuses, call the Attorney General’s consumer hotline.

Keep advertisements/solicitations from your lender and school.

Make sure to keep copies of all the solicitation/advertising materials you receive from your lender or from your school, as well as your loan paperwork. In many cases, the rates that are advertised to you do not appear in any of the actual loan documents that you sign. Therefore, it is important to keep the advertisements where these rates appear so that you will be able to document the promises made to you by your lender when it comes time to start repaying your loan years later.

Please visit

www.IllinoisAttorneyGeneral.gov

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