

KEY INFORMATION ABOUT LOAN PROGRAMS

LOAN	NEED-BASED & SUBSIDIZED?	SPONSOR	BORROWER	INTEREST RATE
Perkins	Yes	Federal government	Student	5% (fixed)
Subsidized Stafford	Yes	Federal government	Student	3.4% (fixed), effective July 1, 2011
				6.8% (fixed), effective July 1, 2012
Unsubsidized Stafford	No	Federal government	Student	6.8% (fixed)
PLUS Loan	No	Federal government	Parent	7.9% (fixed)
Alternative (Private)	No	State agencies, foundations, banks	Usually student with creditworthy cosigner(s)	Fixed or variable, varies by lender

REPAYMENT TERM EXAMPLES FOR A \$10,000 ALTERNATIVE STUDENT LOAN

	MONTHLY PAYMENT	INTEREST RATE	TERM	TOTAL REPAYMENT	SAVINGS	REPAYMENT OPTIONS
Full Deferment During School	\$163.50	7.75% fixed	120 months	\$19,620.00	\$0	Full Deferment
Interest Only Payments During School*	\$124.82	7.75% fixed	120 months	\$18,201.79	\$1,418.21	Interest Only Payments vs. Full deferment
Immediate Repayment	\$124.82	7.75% fixed	120 months	\$14,977.41	\$3,224.38	Immediate Repayment vs. Interest Only
				\$4,642.59		Immediate Repayment vs. Full Deferment

* Interest only payments of \$67.16 during 48 months of in school, then payments of \$124.82 for 120 months

The Maine Educational Loan Authority (MELA)

is a quasi-governmental agency that was created by Maine legislation in April of 1988. MELA was established to assist students and their families to achieve their goals for a higher education by providing an alternative student loan program.

All MELA loans are funded with proceeds from tax-exempt bonds or private financing, and no State monies are allocated to fund the program. MELA's alternative student loan program has been an important safety net for many students and their families in meeting the full cost of higher education.



Maine Educational Loan Authority
131 Presumpscot Street
Portland, ME 04103

1-800-922-6352
www.mela.net

follow us on twitter 

like us on facebook 



Understanding ALTERNATIVE STUDENT LOANS





WHAT ARE ALTERNATIVE STUDENT LOANS

Alternative student loans, also known as private education loans, are available to eligible undergraduate and graduate students to borrow funds up to the full cost of education after financial aid has been deducted. They are a resource that exists to bridge the gap between the full cost of college and traditional financial aid resources, such as scholarships, grants, and Federal education loans.

Students should fully utilize their eligibility for Federal education loans such as Stafford loans and maximize other traditional financial aid resources prior to considering an alternative student loan.

BORROW THE MINIMUM AMOUNT NEEDED

Borrowers are advised to borrow the minimum amount needed. Take into consideration not only borrowing what you need, but what you can afford to repay. Depending on your program of study, keep in mind that you may need to borrow for two, four or more years of college which could result in a significant amount of debt.

YOUR CREDIT SCORE

Eligibility for alternative student loans is based on the credit score of the borrower(s). The Fair Isaac Credit Score (FICO) is the most widely used score and ranges from 300 to 850. Your credit score can also affect the cost of your debt, with lower interest rates and fees reserved for borrowers with better credit scores. This is why it is often better for a student to apply for an alternative student loan with a cosigner, since the lender usually bases the interest rate and fees on the highest credit score of the

borrowers on the loan. You should review your credit report annually, but at least six months in advance of applying for a loan. This will allow you sufficient time to correct any errors. Federal law entitles you to a free copy of your credit report every year from each of the three credit bureaus: Equifax, Experian and Trans-Union or via www.annualcreditreport.com.

ABILITY TO REPAY DEBT

In addition to your credit score, many lenders will look at your ability to repay debt. This is most commonly done using a debt-to-income ratio often abbreviated as DTI. DTI is the percentage of a consumer's gross income that goes toward paying all recurring debt payments. If your DTI ratio is more than 50%, you probably have too much debt. Ideally you want to have a DTI ratio that is less than 36%.

COMPARE ALTERNATIVE STUDENT LOAN PROGRAMS PRIOR TO SELECTION

- How long has the lender been in business and where are they located?
- Does the lender have a good reputation for customer service?
- Does the loan have a variable or fixed interest rate?
 - A variable interest rate can change as frequently as every 30 to 90 days. Find out how your interest rate is calculated and how often your rate may change.
 - Make sure to research what interest rate you qualify for since lenders often advertise their lowest rate, but not everyone will qualify for that rate.

- Find out the maximum variable interest rate that you can be charged for your loan.
- A fixed interest rate remains consistent throughout the life of the loan and provides stability with respect to your monthly payment. Find out the current interest rate.
- What are the fees associated with the loan and do the fees vary depending on your credit score?
- Are there annual and/or aggregate loan limits?
- What are the repayment options and do the rates and fees vary depending on which option you choose?
 - Defer principal and interest:
Make no payments while continuously enrolled in school. Interest is capitalized at repayment. Principal and interest repayment begins six months after graduation or when you are no longer enrolled in school.
 - Interest only:
Repay only your interest while continuously enrolled in school. Interest only payments may begin within 60 days of the first disbursement date. Repayment of principal and interest will begin six months after graduation or when you are no longer enrolled in school.
 - Immediate repayment of principal and interest:
Repay principal and interest in a monthly amount beginning no more than 60 days after the final disbursement date.

