Private Alternative Loans

Changing the Conversation

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Student Lending
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Who is doing the borrowing?

Traditional families have changed and vary in their beliefs on who should be borrowing.

Factors to Consider

- Students' ability to borrow on their own.
- Students' availability of a cosigner.
- Students' ability to make payments after graduation.

- Parents' willingness to borrow.
- Parents' ability to meet credit standards.
- Parents' willingness to make payments after graduation.
How involved are parents and/or other family members?

**Options for Student in College or going to Graduate School**

- Financial Aid
- Federal Loans
- Private Loans
- Parent Loans
- Home Equity

**Options for Student done with School**

- Federal Loan Consolidation
- Private Loan Consolidation
- Parent Loans
- Home Equity

Parent information on FAFSA, cosigner or primary applicant for loans.

Parent as cosigner for student refinance, or primary applicant for own debt consolidation.
Affordability is the #1 concern: for parents, it is an integral part of the process, not an afterthought.

Survey conducted by Citizens Bank, February 2015
The information they want to know about education finance is straightforward

- Expected interest rates/fees: 55%
- Payment options to look for: 54%
- Application process and requirements: 43%
- Different loan options that are out there: 40%

Q. What type of information would you like to know about student loans?

Citizens Bank®
Federal Direct Student Loans

- Requires completion of the FAFSA annually
- Part of financial aid “package”
- Student borrower - no cosigner, no credit check
- Annual limits on amount
- Fixed Rate - 3.76% UG, 5.31% Grad
- Fees - 1.07%

- May be subsidized
- No payments required while enrolled
- Numerous repayment options
- Loan Forgiveness (for some)
Federal Direct PLUS Loans for Parents

- Parent of Undergraduate Student
- Graduate Students
- Easy to qualify - No adverse credit
- Borrow up to what is needed
- Fixed interest - 6.31%
- 4.27% Fee deducted from proceeds

- Immediate repay or interest only payments.
- Standard 10 year term.
- Many repayment options
Evolution of Private Student Loans

Private Student Loans have come a long way in recent years.

Some of the most notable improvements to Private Student Loans:

• Greater variety of products, rates, and terms
• Lenders promoting responsible borrowing
• Clear disclosures
• Competitive rates available (sometimes lower than federal)
• No fees

• Ease of process
• More benefits for borrowers
• Loan forgiveness in the case of student death or permanent, total disability.
Private Lenders Promote Responsible Borrowing

• Underwriting practices that help avoid the moral hazard of “over-borrowing”

• Requiring school certification

• Incenting good credit with better rates

• Offering Financial Literacy Education and Debt Counseling tools (see example on right)
Private (alternative) Student Loans

- Undergraduate or Grad Student
- Usually requires cosigner (shared responsibility)
- Must credit and income qualify
- Borrow up to what is needed annually
- Some lenders offer Line of Credit or Multi-year Option
- Choice of fixed or variable interest rates
- Rates based on applicant’s credit (and loan term)
- No Fees
- Choice of immediate repay, interest only or deferment.
- Repayment options
  - Choice of terms (5, 10, 15 years)
  - Forbearance, deferment, extended grace, and loan modification (in the case of extreme financial hardship).
  - Cosigner Release
Private (alternative) Parent Loans

- Parent or any responsible adult
- Use for both Undergrad and Grad student
- Borrow up to what is needed.
- Fixed interest rate (as low as federal PLUS)
- Variable rates can start lower than federal PLUS
- No Fees
- Must income and credit qualify (affordability test)
- Choice of immediate repayment or interest only payments.
- Repayment options
  - Terms range from 5 to 15 years.
  - Some forbearance, deferment, extended grace, and loan modification (in the case of extreme financial hardship).
After The Graduation Celebration...

Student Loan Debt Can Lead to Financial Pressures and Deferred Dreams

Since 2004, student loan balances have more than tripled, at an average annualized growth rate of about 13 percent per year, to nearly $1.2 trillion through 2014.

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<td><strong>Auto Purchase</strong></td>
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<td>40% said student loan debt affected decision or ability to purchase a car</td>
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<td><strong>Home Ownership</strong></td>
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<td>29% said student loan debt affected decision or ability to purchase a home</td>
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<td><strong>Marriage</strong></td>
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<td>15% said student loans are delaying the decision to start a family</td>
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<td><strong>Retirement</strong></td>
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<td>41% said they have put off saving for retirement or other investments</td>
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Sources: CNNMoney (New York) May 9, 2013; usatoday.com Aug 26, 2014
## Loan Consolidation and Refinancing

<table>
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<tr>
<th><strong>Federal Consolidation Program</strong>*</th>
<th><strong>Private Consolidation / Refinance</strong></th>
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<tbody>
<tr>
<td><strong>For Students and Parents</strong></td>
<td><strong>For Students and Parents</strong></td>
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<tr>
<td>Minimal credit requirements.</td>
<td>Interest rates and terms based on creditworthiness</td>
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<tr>
<td>Fixed rate based on the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of 1%</td>
<td>Choice of fixed or variable interest rates$^4$</td>
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<td>Only federal student or parent loans may be considered for consolidation—not all loans qualify</td>
<td>May combine both federal and private student loans for consolidation</td>
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<td>Only available through federal government</td>
<td>Rate discounts are available</td>
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<td>Some repayment options are only eligible under financial hardship.</td>
<td>Payment amounts do not change if your income increases</td>
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<td>Monthly payment may change based on income</td>
<td>Student can apply on own or with a qualified cosigner.</td>
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<td>Choice of 5, 10, 15, or 20 year term.</td>
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<td>Cosigner Release option.</td>
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*www.studentaid.ed.gov
Consider these factors when looking at your families and their borrowing options.

- Federal Loans for Undergraduate **Student** first
- Reward graduate students, parents, and other cosigners with good credit - they’ve worked hard for it.
- Application and approval process can be same day.
- Consider your average federal Direct Parent PLUS loan:

  
  \[ \text{\$15,000 \times 4.27\% \text{ fee} = \$640.00} \]
  
  \[ \text{\$640.00 \times 4 \text{ years} = \$2,570 \text{ Savings per family!}} \]
Helping Them Choose the Right Private Student Loan

- Provide direction and a better Customer Experience
- Find the right product for their need
- Help them weigh the benefits and features
- Side by side comparisons
- Access to disclosures for more information
- Implement a recommended or historical lender list.
- Utilize a neutral website such as Fast Choice (Great Lakes) or ELM Select
Are all student loan lenders alike?

- Loan Limits
- Loan Terms & Repayment Options
- Multi-year Option
- Past Due Balance
- Parent Loan
- Borrower Benefits
- Cosigner Release
- Consolidation / Refinance
- Delinquency/Default/Loan Forgiveness
- Customer Experience
Credit Score & Credit History

- **AnnualCreditReport.com or 1-877-322-8228** free copy of your credit report from each of the 3 bureaus
- **Equifax.com or 1-800-846-5279**
- **Experian.com or 1-888-EXPERIAN (397-3742)**
- **TransUnion.com or 1-800-888-4213**
- **websites such as www.myFICO.com**
- If you are denied credit, you may request a copy of your credit report.

**Tips**
- Read the fine print when pulling a credit score - many consumer sites (such as credit monitoring companies) offer a credit score. This is not necessarily a FICO score.
- Some companies create scoring models with different factors/percentages. The score you are given may not be the FICO score the lenders are seeing.
Additional Loan Approval Factors

- **Income Requirements**
  - Verification of stated income
  - Minimum income requirements

- **Employment History**
  - Length of time with current employer
  - Document history of full-time employment (references)

- **Credit Utilization Ratio**
  - Percentage of available credit currently in use
  - Difficult to determine the right mix
Questions