MIT Student Financial Services

Guide to private loans for students and families

About private loans
Private education loans offered by banks, credit unions, and other financial organizations can help students and families pay for college. Generally, families use private loans to bridge the gap between the actual price of education and other sources of financial aid.

As private loans are often more expensive than federal loans, you should consider a private loan only after exhausting your federal loan eligibility. Federal Direct Loans, subsidized and unsubsidized, as well as Federal PLUS loans are often good options for students and families. Submitting the FAFSA (Free Application for Federal Student Aid) is the first step to determining what you may be eligible for, including federal grants, loans, and work-study.

We’ve put together some resources to make the process a bit easier, as you consider whether a private education loan is right for your situation.

How do I locate a private lender?
An online search for “private education loans” is a good place to start. You will find general consumer information about private loans as well as specific information from major lenders who provide private loans.

What if I’m an international student?
If you aren’t a U.S. citizen or permanent resident, you may have fewer options, unless you have a cosigner who is a U.S. citizen or permanent resident and has a good credit history. However, some private lenders will provide loans to international students without a cosigner.

Does MIT maintain a preferred lender list?
No, we do not maintain a preferred lender list, as we believe it’s inappropriate for us to endorse or recommend one private loan product over another. Each student and family has different needs and priorities that will determine which loan is best for them.

How do I choose among private lenders?
When you choose a private lender, consider eligibility, loan limits, interest rate, fees, repayment, and customer service. We discuss each of these in more detail below.

Things to consider when choosing a lender

Who will borrow
Your first step is to decide who will borrow—student, parent, or both? Some loans are only offered to students, while others are offered to parents. Who should be responsible for repaying the loan? Who is in the best position to assume debt? Who can obtain better credit terms? These are all things to consider.

Eligibility
Most lenders rely on the borrower's credit score to determine eligibility for private loans. The most popular credit score is the FICO score. Other criteria may include the borrower's debt-to-income ratio and recent bankruptcies. Other things to consider include eligibility criteria or if the loan requires a cosigner. If it doesn't, are there any benefits to having one?

Even though a co-borrower or cosigner, may not be required, you may want to consider one with a strong credit history. This will make a difference on total cost of your loan, as loans with cosigners are less risky for the lender.

Please note: Federal Direct loans to students do not depend on a credit score. However, the Federal PLUS loan to parents does require that the borrower not have an adverse credit history. Undergraduate borrowers whose parents are denied a PLUS loan are eligible for increased Federal Direct unsubsidized loans.

Loan limits
Most private lenders require school certification or approval, which caps the annual loan amount to the price of your education (cost of attendance) minus other sources of financial aid, such as scholarships, grants, teaching assistantships, research assistantships, fellowships, other student loans, and Federal Work-Study. Some loan programs have minimum annual loan amounts in addition to maximums.

We strongly encourage you to borrow only what you need! Even if you qualify for more, you should avoid overextending yourself. For students a general rule of thumb is to keep your monthly student loan repayment to approximately 10% of your monthly income, but this can vary based on other debt, especially credit card debt.

If you are enrolled in a non-degree program, we certify loans for tuition, fees, and books only. MIT doesn't include living expenses when certifying private loans for non-degree programs.

Interest rates
Is the interest rate fixed or variable? If variable, what is the basis upon which it will vary? Does the rate change every quarter, month, or according to some other time period? When does interest begin accruing? Do you need to pay the interest as it accrues or can it be deferred or capitalized? If capitalized, how often is it capitalized? Is the interest rate the same for the time you are in school and the grace period as it is when the loan enters repayment?

One method of securing a better interest rate is to agree to make loan payments while you're in school. You may begin repayment immediately or make interest-only payments during the in-school period.

While private lenders might advertise a low interest rate, these rates may only be available to customers with the highest credit scores. The actual interest rates and fees you pay on a private education loan are based on your personal credit score and the credit score of your cosigner, if any. It's often better to apply for a private loan with a cosigner even if you qualify for the loan on your own, as applying with a cosigner usually results in a slightly lower interest rate.

Interest rates continued

Interest typically accrues from the date of the first disbursement and can be paid while enrolled in school or deferred and capitalized (unpaid interest added to the principal amount of your student loan) at the time of repayment.

Be aware of teaser introductory interest rates that disappear when the variable rate indexes start increasing. Be concerned about how the interest rates might change over the entire life of the loan, unless you are intending to repay the loan in full only a few years after disbursement.

Fees

Are there any loan fees? What is the impact of any loan fees on the overall cost of the loan?

Some lenders charge fees that can significantly increase the cost of the loan. A loan with a relatively low interest rate but high fees could cost more than a loan with a somewhat higher interest rate and no fees. Some lenders do not charge fees but increase the interest rate to compensate. A good rule of thumb is that an extra 1% in the interest rate costs more than 1% in fees; in fact, a 1% higher interest rate may be the same as 3–4% in fees.

Repayment

What are the repayment options? How long is the loan term? Are there any consolidation options? Are there any borrower benefits?

Repayment options vary across lenders and may include options for repayment. You should ask if you are able to postpone your payments while you are enrolled in school; this may be referred to as in-school deferment. Keep in mind that interest will continue to accrue, increasing the amount owed.

Some lenders offer financial incentives, or borrower benefits, to reduce the price of your loans. For example, there may be principal balance or interest rate reductions tied to repayment performance. Some repayment benefit plans are simple and others are complex. Make sure you understand the terms you must meet and the likelihood of receiving the benefit before choosing a private loan on that basis alone.

Loans with different repayment terms are challenging to compare. Keep in mind that the annual percentage rate (APR) may not be a good tool for comparing loans. For example, a loan with a longer repayment term will have a lower APR even though the borrower will pay more interest over the life of the loan.

Customer service
Is the application process simple and straightforward? How can you reach a representative to check on your loan status? Is customer service available 24/7 or during hours convenient for you? Will the lender handle the origination of the loan as well as the repayment? If not, what organization will?

It's common for large lenders to have an online application and signature process, including Master Promissory Notes.

Some lenders only handle the up-front administration of the loan including the origination and disbursement, and then rely on another organization to "service" the loan through repayment. If the lender will not be the one servicing the loan during the in-school or repayment periods, take time to learn more about which organization will, their customer service hours, and how you will be able to connect with one of their representatives.

Loans may be a long-term relationship, so we recommend that you research carefully and select a loan program with a record of excellent customer service.

How to apply for a private loan

After you have selected a lender:

1) Submit a loan application.
    a. Be sure that you understand the lender's application process, also known as origination, as well as the process by which you receive the funds, known as disbursement. This will most likely be an online application depending on the lender.
    b. Apply for the full amount that you need for the entire academic year. MIT will disburse the loan to your account in two equal payments: once in September for the fall semester and once in February for the spring semester.
2) Usually, MIT needs to certify your eligibility for the loan. Student Financial Services (SFS), specifically the financial aid office within SFS, will take care of this for you.

In addition to school certification, you will need to complete and sign the Self-Certification Form and submit it to your lender. They must receive this form before your loan can be disbursed, as it is a federal requirement for both U.S. citizens and international students. The form may be provided by your lender, and it is also available on the SFS website on the Forms page. If you need assistance with completing Section 2 of the form, which asks for the cost of attendance and estimated financial assistance, please reference your financial aid award letter.
Your lender will let you know if there are any additional application requirements, such as loan entrance counseling.

We can help
We know all of this can be confusing, and we are here to help! You can always call us at 617.258.8600 or email your loan counselor directly. We are happy to help you determine which loan is best for your particular situation.