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# Comparing College Loan Options



## About MEFA

**Not-for-profit state  
authority created in 1982,  
helping families plan,  
save, and pay for college**

**Comparing College Loan Options:**

# **Understand Loan Terminology**

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## Interest Rate

- The percentage of the amount borrowed that the lender charges for the use of its money
- Understand the difference between fixed vs. variable
  - *Fixed interest rate*: monthly payment will remain the same
  - *Variable interest rate*: monthly payment will adjust with the market
- Find out if there is a cap on variable interest rates
- Most interest rates are tied to the strength of your credit
- The interest rate may be tied to your chosen repayment option
- Pay attention to the full range of potential interest rates, not just the advertised rate

## Annual Percentage Rate (APR)

- **Annual cost of the loan, including fees**
- **Expressed as a percentage**
- **Quick way to compare loans**



## Repayment Term

- **Specifies the length of time to repay the loan**
- **Has a direct impact on the total cost**
- **Provides flexibility as families consider their monthly budget**
- **Most lenders offer different repayment terms to choose from**

## Application and Solicitation Disclosure

- **Statement providing details about the loan and estimated total loan cost examples**
- **Required for private lenders such as [MEFA](#)**
- **Can be found on lender websites and loan comparison tools**
- **Things to look for:**
  - **What are the interest rates?**
  - **What are the fees?**
  - **What will be the total cost?**

# Variable Rate Example

## Loan Interest Rate & Fees

Your **starting interest rate** will be between

**3.750%** and **10.125%**

After the starting rate is set, your rate will then vary with the market.

### Your starting Interest Rate (upon approval)

The starting Interest Rate you pay will be determined after you apply. It will be based upon your credit history and other factors. If approved, we will notify you of the rate you qualify for within the stated range.

### Your Interest Rate during the life of the loan

**Your rate is variable.** This means that your rate could move lower or higher than the rates on this form. The variable rate is based upon the one-month LIBOR Rate (as published by Reuters on its Reuters Screen LIBOR01). For more information on this rate, see Reference Notes.

Although the rate will vary after you are approved, **it will never exceed 25.000%** (the maximum allowable for this loan).

### Loan Fees

**Application Fee:** \$0.00. **Disbursement Fee:** The fees that we charge to make this loan are 0.000% to 0.000% of total loan amount. **Late Fee:** 5.00% of the amount of the past due payment, up to a maximum of \$25. **Returned Check Fee:** up to \$20.00. **Fee when you begin repaying the loan:** 0.000% of loan balance.

## REFERENCE NOTES

### Variable Interest Rate

- This loan has a variable interest rate that is based on a publicly available index, the one-month London Interbank Offered Rate (LIBOR) rounded up to the nearest one-eighth of one percent (0.125%). Your rate will be calculated each month by adding a margin between 3.500% and 9.875% to the LIBOR rounded up to the nearest one-eighth of one percent (0.125%).
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time.

# Fixed Rate Example

## Loan Interest Rate & Fees

Your **starting interest rate** will be between

6.53 %

 and 

12.19 %

After the starting rate is set, your rate will then remain fixed for the term of the loan.

### Your Starting Interest Rate (upon approval)

The starting interest rate you pay will be determined after you apply. It will be based upon your credit history and other factors (chosen repayment option and co-signer credit, if applicable). If approved, we will notify you of the rate you qualify for within the stated range.

### Your Interest Rate during the life of the loan

**Your rate is fixed.** This means that your rate will remain constant over the term of your loan. For more information on this rate, see the reference notes below.

The **maximum rate** on the Student Loan is the fixed rate which will be disclosed to you if you qualify.

## Loan Cost Examples

The total amount you will pay for this loan will vary depending upon when you start to repay it. This example provides estimates based upon the three (3) repayment options available to you while enrolled in school.

Repayment Option (while enrolled in school)	Amount Provided (amount provided directly to your school)	Interest Rate (highest possible starting rate)	Loan Term (how long you have to pay off the loan)	Total Paid over 15 years (includes associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan.	\$10,000.00	12.19 %	15 years Starting <u>after</u> the deferment period	\$ 32,482.34
2. PAY ONLY THE INTEREST Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000.00	12.04 %	15 years Starting <u>after</u> the deferment period	\$ 26,476.00
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts while enrolled in school.	\$10,000.00	12.04 %	15 years Starting <u>after</u> the first disbursement	\$ 21,230.51

### About this example

\*Assumptions: All loans assume a \$10,000 loan in the first year of school with two disbursements, the highest fixed interest rate currently offered and associated fees for the repayment option shown. Other assumptions include a 45 month in-school period, a 6 month grace period (if applicable), and that the borrower remains in school through the expected graduation date.

## Loan Fees

**Origination Fee:** There is no origination fee on this loan. **Late Charges:** If your payment or any portion of your payment is more than fifteen (15) days late, you agree to pay a late charge of 5% of the payment amount. **Returned Payment Charge:** If you make a payment, and that payment (including an electronic payment) is returned or refused by your bank for any reason you agree to pay a charge of \$15.00 for each such payment returned or refused. This is in addition to any fee that your bank may also charge you. **Charges for Optional Services:** If you request and Lender agrees to provide optional services in connection with your loan, Lender may charge you and you agree to pay the fees for such services. The fees will be disclosed to you before you accept any such service. Optional services may include, but are not limited to: (1) allowing you to make an expedited payment on your loan, and (2) sending documents to you by express delivery or facsimile transmission.



## Co-Borrower

- **Signs the loan agreement along with the student borrower**
- **Has equal responsibility on the loan agreement**
- **Adding one (or two) may increase chances for approval**
- **Those with good credit may help decrease the interest rate**
- **Some loans have co-borrower release options**

**Comparing College Loan Options:**

**Be A Wise Borrower**

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1. Minimize Borrowing: Use Savings & Present Income

Balance Due: \$20,000

Past Income (Savings)		
Student Savings		-\$1,000
Parent Savings		-\$4,000
Present Income (Current Wages)		
Parent Contribution to Payment Plan		-\$5,000
Future Income (Borrowing College Loans)		
Education Loan		-\$10,000
		\$0

## 2. Borrow Federal Direct Student Loans First

- **Student is the borrower**
- **No credit check**
- **Fixed interest rate changes annually: 4.99% for 2022-23**
- **Two types:**
  - **Subsidized: Interest accrues after student leaves school**
  - **Unsubsidized: Interest accrues immediately**
- **1.057% fee deducted from loan amount**
  - **\$5,500 = 5,441.87 credited to student account**
- **Master Promissory Note & Entrance Counseling: StudentAid.gov**
- **No payments while in school**
- **Several repayment options**

Annual Loan Limits	
Freshman Year	\$5,500
Sophomore Year	\$6,500
Junior Year	\$7,500
Senior Year	\$7,500

### 3. Understand How Loans Work

- You may borrow a loan amount up to the school's cost of attendance minus any financial aid received
- But only borrow what you need!
- Apply for loans one year at a time
- Apply for the loan amount needed for the entire year
- Estimate your monthly payment
  - Think about total loans for 2-5 years
  - Consider your projected salary
- The school will split the loan to pay for the fall and spring semesters
- Loan funds will go directly to the college

4. Assess Loan Affordability

Student Loan Payment Calculator

Amount to borrow:

\$20,000

Years before graduation:

4 years

My or my co-borrower's credit profile:

☐ Good

☒ Very Good

☐ Exceptional

Calculate

	<u>Immediate Repayment: 10 Years</u>	<u>Immediate Repayment: 15 Years</u>	<u>Interest-Only Repayment: 15 Years</u>	<u>Deferred Repayment: 15 Years</u>	<u>Student Deferred with Co- borrower Release: 15 Years</u>
In-School Monthly Payment	\$212.37 for 48 months	\$158.94 for 48 months	\$89.12 for 48 months	\$0.00 for 48 months	\$0.00 for 48 months
Post-School Monthly Payment	\$212.38 for 72 months	\$158.94 for 132 months	\$202.06 for 132 months	\$245.56 for 132 months	\$248.67 for 132 months
Total Cost of Loan	\$25,485.12	\$28,609.20	\$30,949.68	\$32,413.92	\$32,824.44
Interest Rate	4.85%	4.95%	5.30%	5.35%	5.50%
APR	3.75% - 5.40% **	4.05% - 5.45% **	4.50% - 5.65% **	4.65% - 5.60% **	4.80% - 5.75% **
	<div>Loan Details</div>	<div>Loan Details</div>	<div>Loan Details</div>	<div>Loan Details</div>	<div>Loan Details</div>

[mefa.org/pay/loan-payment-calculator](https://mefa.org/pay/loan-payment-calculator)

## MEFA Loan and PLUS Loan Comparison

	MEFA Loan	Direct PLUS Loan
<b>Interest rate</b>	3.75%-5.75% current fixed rates as of 5/13/2022	7.54% fixed for 2022-23
<b>APR</b>	3.75-5.75%	Not disclosed
<b>Fee</b>	No origination fee	4.228% origination fee
<b>Student on the loan?</b>	Yes	No
<b>Responsibility to repay</b>	Student & co-borrower(s)	Parent
<b>Transfer responsibility?</b>	Co-borrower release option	No
<b>Credit criteria</b>	Minimum credit score	Minimal credit standards
<b>Repayment term</b>	10-15 years	10-25 years
<b>Repayment options</b>	Immediate, interest-only, deferred	Immediate or deferred
<b>Enrollment status</b>	At least half-time	At least half-time
<b>Consumer safeguards</b>	Student death & disability loan forgiveness	Parent or student death & disability loan forgiveness
<b>Need to file the FAFSA?</b>	No	Yes

## 5. Get Advice from Trusted Resources

**Ask questions of lenders**

**Look for transparency**

**Utilize free resources, including MEFA**

**Work with the college financial aid  
and student accounting offices.  
Lender lists on college websites**

## 6. Be Aware of Timing

- **Bills for the fall semester sent in June/July, due in July/August**
  - Includes direct costs only (tuition, fees, dorm, meal plans & other direct costs)
  - May include health insurance charge, which you can waive if already covered
  - Enrollment deposit, private scholarships, and financial aid will be deducted
  - If you set up a payment plan and/or loans you may see these credited amounts
- **Work-study is not typically deducted from the bill**
- **Apply for a MEFA Loan or other private loan at least 2 weeks before the college's bill due date**
- **You may apply for a loan if needed anytime during the academic year**
- **Set up payment plans according to the school's schedule**

## Connect with MEFA on Social Media



[facebook.com/mefaMA](https://facebook.com/mefaMA)



[@mefa\\_ma](https://www.instagram.com/mefa_ma)



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[linkedin.com/company/mefa](https://linkedin.com/company/mefa)



[youtube.com/MEFAcounselor](https://youtube.com/MEFAcounselor)



[mefa.org/mefa-podcast](https://mefa.org/mefa-podcast)

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Thank You

QUESTIONS?

Call (800) 449-MEFA (6332)  
or email [collegeplanning@mefa.org](mailto:collegeplanning@mefa.org)

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