Loma Linda University
Guide to Selecting an Educational Loan Lender

Choosing a student loan lender is a major decision. It is a choice that may stay with you for 30 years. That is the maximum time period a student, under certain repayment plans, has to repay their student loan(s). It is the same time period in repayment for many commercial home loans. Here are some things to consider as you evaluate lenders.

**Do you have outstanding prior educational loans? Who is the current holder/servicer of those loans?**

If you have an outstanding educational loan, it's a good idea to continue to borrow through the same lender OR through a lender that uses the same loan servicer. *The choice of a lender for your federal and private student loans is yours.* The Loma Linda University Financial Aid Office will process loans from any eligible lender you decide to use.

**Do you know how to research lenders?**

Approach selecting your lender as a financial transaction in which you are trying to get the best value for your money. Most lenders operate under “for-profit” ownership structure. There are, however, several lenders that are “non-profit” and are committed to using their excess funds to reduce the cost of loans to their borrowers. When researching your lender we recommend giving special consideration to the lenders with a “non-profit” ownership structure.

Taking the time to review, question, and interview a potential lender is important. *The Financial Aid Office can not recommend a lender to you.* Inquiry with the lender is the best and most accurate method to know and understand the terms and conditions a lender offers. What is best for one student will not be the best for others. The responsibility, as well as the decision, falls to you, the student loan consumer.

There are several ways to gather information about lenders:

1. Read lender brochures and other printed materials. Do they give you the information you want in a clear, straightforward manner or do they seem to be mostly a slick sales pitch?
2. Go to the lender's web page. Again, can you find what you are looking for? Do you have to apply for a loan before you get detailed information? This is a bad sign.
3. Call the lender several times and ask questions (see questions to ask below). Are you able to speak to a person who is well-informed and courteous? Does the person hesitate when you ask specific questions? Do you spend a long time on hold every time you call? This is a bad sign.

**Some of the major considerations involved in choosing a lender.**

These include cost, flexibility, and customer service. Although all Federal education loans have the same interest rates and fees, some lenders offer prompt-payment discounts that can reduce the cost of the loan. These repayment incentives, also referred to as borrower benefits, include interest rate reductions, full or partial origination fee rebates, and principal balance reductions. They reward the student for using automatic direct debit of monthly payments and/or for making on-time monthly payments.

1. **Qualifying For Borrower Benefits:** It is important to realize that if you are late on a single monthly loan payment you may no longer qualify for the prompt payment discounts. Do not overestimate your ability to make all the payments on time. Ask the lender what percentage of their borrowers qualify for each of the borrower benefit
programs. Less than 15% of borrowers succeed in obtaining any discount other than the 0.25% interest rate reduction for EFT.

2. Borrower Benefits Over Time: A 2% interest rate reduction after 48 months of on-time payments may sound like a lot, but it is equivalent to less than 0.7% point reduction in the interest rate over a ten-year period of regular student loan payments. Even after adding in the 0.25% point reduction for signing up for EFT, the savings is still less than a 1% point interest rate reduction. Since very few students end up qualifying, the cost to the lender of offering student loan discounts is the equivalent of only about 0.1% point reduction in the interest rate.

3. What Is The APR? The Annual Percentage Rate (APR) is an interest rate that is different from the note rate. It is commonly used to compare loan programs from different lenders. If a lender indicates their APR is lower than another, ask what factors were considered in calculating the APR they have presented to you. Have they taken into consideration Borrower benefits you are unlikely to get?

Many lenders sell their student loans to a secondary market when the loans enter repayment. Many lenders also use a third-party servicer to manage the processing of payments and customer service requests. If you consolidate your loans, you are effectively paying off your old loans and replacing them with a combined loan from a single new lender. As a result, the company that services your student loan might not be the same as the bank that originally issued the loan.

Other common customer service considerations include the availability of an online interface to the account information and the availability of combined billing for Federal and non-Federal education loans.

Some Important Questions to Ask Your Lender:

- What benefits are offered? What percentage of students qualify for those benefits?
- Is loan interest capitalized? If so, when and how often?
- Is the customer service good? Call the lender and ask questions. What are the customer service hours? Can I access information over the internet? How long did I wait for my call to be answered?
- Is extra effort put forth to help students avoid default?
- Does the lender use a servicer?
- Does your lender sell their student loans to the secondary lender market?
- Are the origination fees discounted?
- Can the benefits offered change? How? When?
- What are the terms and conditions for hardship deferments?
- Are the benefits in writing? If so, where can I find them?
- How long has the lender been in the student loan industry?
- How was the APR calculated?
- Use common sense when evaluating a potential student loan lender. If something sounds too good to be true, it might be.

Using a Lender List:
There are, literally, hundreds of student loan lenders from which you can choose. While Loma Linda University (LLU) does not provide students with a preferred lender list, to assist you as you begin your search, we will provide you with a list of the lenders that the students at LLU borrowed from this past year.

Click here to view lenders