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Facts You Didn't Know About Private Student Loans

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Taking on student loan debt can be a good long-term investment for some professions, but not all student loan debt is the same. Students typically have two main options when it comes to borrowing money: a federal student loan or a university payment plan. What many have started to consider as a third option, is a private student loan from a bank or credit union. With the current student debt total at \$1 trillion, it's a topic worth knowing a little bit about. If you're considering a private student loan, here are a few things you need to keep in mind. If you already have one, take a look at this list and make sure you know the terms of your agreement.

SEE: [Student Loans: Private Loans](#)

You're Going To Pay More In Interest Rates And Fees

A lot of private student loans market themselves as low-interest loans you can use for your education. The problem is that most of those advertised rates are only for people with impeccable credit scores. The majority of students who receive private loans don't get great interest rates because they don't know how to build a better credit score. In fact, less than 5% of borrowers receive the lowest rates for private student loans.

Those who do qualify for the lowest interest rate, and especially those who don't, should check the fine print to make sure they're not getting a variable interest rate that may increase in a few years. Many private student loans are set up with a variable interest rate that will increase over time, and you could end up spending a lot of money to pay for a small loan. Compared to federal student loan programs, which have fixed interest rates, you may end spending a lot more money than expected to pay back that private student loan.

SEE: [3 Easy Ways To Improve Your Credit Score](#)

Can't Be Canceled or Forgiven

Unlike federal student loans, there aren't very many options for having your private student loans canceled or forgiven. For some federal student loans, if you work in the non-profit public service industry for 10 years you may qualify for federal student loan forgiveness. Not so for private student loans. Don't expect any options for private loans to be canceled or forgiven. And if you end up with a very big debt to pay, bankruptcy may have to be considered.

If You Lose Your Job, You May Be on Your Own

The current economic situation in the U.S. and throughout Europe is still unstable. People who lose their jobs, have lost their jobs or do not get jobs out of college, don't have as many options when it comes to repaying private student loans. Federal loans offer loan deferment for financial hardships, but you won't get the same options with a private student loan. You may be able to speak about the terms directly with the bank that owns your private student loan, but the bank is under no obligation to work with you to renegotiate or lower your monthly payments.

Income-Based Repayment Not an Option

Along the same lines of financial hardship, an income-based repayment (IBR) option is available for federal student loans, but not private loans. An IBR plan allows individuals to make monthly payments based on how much money he or she is currently earning. Each year, the IBR number is set based on your annual income from the previous year. The more you make, the more you'll pay, but after 25 years of payments, the loan is forgiven no matter how much is left. If you have a private student loan, you won't have access to this type of repayment plan.

SEE: [Student Loan Changes You Need To Know](#)

If You Have to Get a Student Loan, Look at Your Options

If you have no other option than to get a private student loan to pay for your education, consider applying for a loan from different companies and then compare their repayment plans. Often, it's difficult to know what interest rate you're going to get, what the fees will be and how your repayment is structured until you actually apply for the loan. By applying for several loans, you'll be able to compare rates and fees and make the best choice for you. However, know what credit inquiries can do to your credit score before applying to a high number of companies.

The Bottom Line

In most cases, private student loans aren't your best option, so make sure you know exactly what you're signing up for. Research each loan before you accept the terms. Your loan could be with you for a very long time, so don't jump into anything without knowing exactly how much it's going to cost and for how long.

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