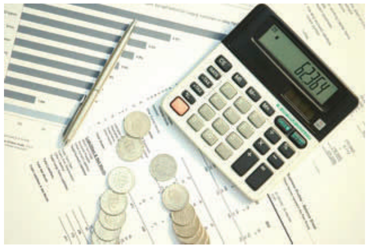
A Student Loan is a Serious Matter



A student loan is a serious and significant financial commitment. Failure to repay your loan can have a long-lasting negative impact on your credit, and defaulting on your loan will lower your credit score and impede your ability to buy a car or house. It is virtually impossible to eliminate student debt by declaring bankruptcy except in extreme cases of hardship. Do not be afraid to ask tough questions of potential lenders and your school financial aid office. The thoughtful decisions that you make today will make repaying your loan that much easier in the future.

Introduction to College Finance

Most students will receive a financial aid award letter from their college. This letter may set forth a number of financial aid options, including grants (which do not have to be paid back), loans (which must be paid back) and work study (employment at the school). Among the loans that may be offered include Stafford loans (either subsidized or unsubsidized) and PLUS loans (usually taken out by parents or by graduate students). These loans are guaranteed by the federal government. The rising cost of college, however, has caused many students to resort to private loans from banks in addition to receiving the federally subsidized loans, grants and work study assistance. Because these loans are neither subsidized or guaranteed by the federal government, it is important that the student be wary of simply utilizing a "preferred lender" list from the college.

For more information or to file a complaint please contact this Office as follows:

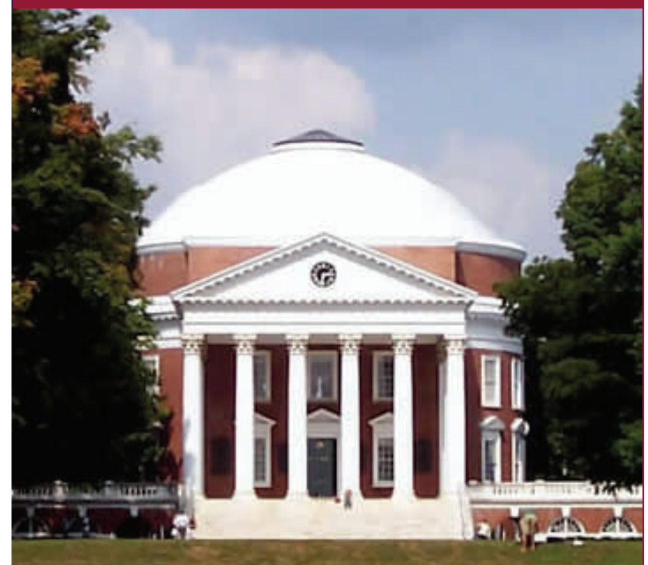
Office of Minnesota Attorney General
Lori Swanson
445 Minnesota Street, Ste. 1400
Saint Paul, MN 55101

Consumer Hotline:

1-800-657-3787
or
651-296-3353

Student Loan Guide

What you need to know



From the Office of Minnesota Attorney General Lori Swanson

www.ag.state.mn.us

STUDENT LOAN GUIDE

The Rising Cost of College

A college degree can be the most significant investment for a family. Rising by more than 50 percent for the past five years, the cost of a college degree can exceed $50,000 at a public college and $125,000 at some private schools. These rising costs have led to record levels of borrowing, with two thirds of students borrowing over $85 billion in debt this year, an increase of almost 30 percent since 2001.

The Problem: Deregulated Interest Rates

Almost 20 percent of the $85 billion borrowed this year comes from private lenders who are essentially free to charge any interest rate. Bank deregulation, where rates and terms are not regulated by the government, has caused students to be vulnerable to abusive tactics by some lenders. For instance, Congress deregulated interest rates of national banks, under the theory that competition is the most effective regulator of rates. State banks located in those states that have abolished usury laws are also free to charge any interest rate they want. The premise of deregulation is that, for competition to be effective, borrowers must shop around to get the "best" terms on the loan.

Unfortunately, many unwary students simply trust their college by only using lenders on the college's "preferred lender" list. They assume that "preferred lender" means that the college negotiated the best terms on the student loans. What students don't know is that some lenders will pay a college a bonus if the college steers students to the lender. This usually occurs through the use of a so called "preferred lender" list. According to *CBS News*, Citibank paid Syracuse University a 1/2 percent payment on student loans and, not by coincidence, 98 percent of the students at Syracuse borrowed their money from Citibank. It has also recently been discovered that some lenders also provide luxury trips, under the guise of education conferences, to school officials, allegedly for placement on the "preferred lender" list.

Colleges also steer students by claiming that, if a preferred lender is not utilized, there may be unnecessary delay in processing the loan and making payment to the college. In other instances, colleges simply discouraged students from taking out loans from particular lenders.

Get the Best Rates

Because of unknown financial inducements offered by lenders to schools and school officials, the "preferred lender" list might not be the best place to get a loan.

Students should shop around for the best rates and terms, and be wary of promises of a bonus credit during the repayment period. Many lenders offer to cut the interest rate if the student makes payments on time for 24 months or 36 months. This bonus offer is a bit hollow, however, because lenders know that many students fail to meet this condition. As important, many lenders have loan terms which provide that such a bonus offer terminates if the loan is sold to another lender, and in many cases the loans are repackaged and sold on a secondary market.

Choose Your Own Lender

You are entitled to choose your lender. If you sign a "signature loan" to the school, it may sell the loan to its preferred lender, which may not offer the best terms. Be sure to find a lender that offers the best terms for you.

Keep Your Record

In many cases, the rates that are advertised to you do not appear in any of the actual loan documents that you sign. Therefore, it is important to keep the advertisements where these rates appear so that you will be able to document the promises made to you by your lender when it comes time to start repaying your loan years later.