

Alternative Educational Loans

Questions and Answers

Q: What is an Alternative Educational Loan?

A: Generally, it is an educational loan that is not a part of the Federal Student Loan Programs (the Federal Direct Loans or FFELP Stafford Loans). This includes Private education loans offered by many lending institutions as well as education loans offered by state sources. Alternative loans typically accrue interest from the point of disbursement and rates are usually, but not always, variable without a cap.

Q: I have an “Alternative Educational Loans” award listed on my award letter. What is it?

A: The “Alternative Educational Loans” award is a calculation of how much you may need in addition to other aid awards, summer work savings, financial assistance from family, savings accounts, etc. to cover tuition fees, room and board and books. This amount may also be available in the form of alternative loans for students, or PLUS Loans (for parents of dependent students). It is your estimated (direct) cost of attendance minus any other aid listed on your award letter, such as grants, scholarships or federal loans.

Q: What are the advantages/disadvantages of taking alternative loans?

A: Alternative loans can fill in the gap where other forms of financial aid are insufficient to meet your needs. Most of these loans do not enter repayment until a student is no longer enrolled at least half-time, but interest is charged at all times. The main disadvantage of alternative loans is that they cannot be combined with federal loans during repayment, meaning you will be required to pay them back separately. Also, the majority of alternative loans carry a variable interest rate so there is a risk of high interest rates during the life of the loan.

Q: What kinds of alternative loans are available?

A: Federal Direct PLUS Loans are available for parents of dependent students. The SELF Loan, a state alternative loan for students at Minnesota schools, and several private lender alternative loans are available with varying requirements and loan terms.

Q: Where can I get more information about these loan programs?

A: A comparison of recommended lenders is available online at www.mnstate.edu/finaid/FactSheet.pdf. (If you do not have Internet access, please call the Office of Scholarships and Financial Aid for more information.)

Q: I have an alternative loan from a prior year. What should I do?

A: Students who have previously borrowed through an alternative loan program should continue to use the same program. Since alternative loans cannot be combined with any other education loan for repayment, multiple loan programs means multiple payments will be required after leaving school.

Q: How do I know how much to request?

A: Always carefully consider how much to request in a loan program of any type. Since many alternative loans are potentially high-cost, most students will want to minimize usage of these loans. As a general rule, we do not recommend using these programs to provide for personal spending money. The “Alternative Educational Loans” award is a calculation of how much you may need in addition to other aid awards to cover tuition and fees, room and board and books.

Q: How do I apply for an alternative loan?

A: First, review your options for financing your school costs to determine the amount you need, then select a loan program. Many of the alternative loan programs recommend use of online pre-approvals/applications (see the website listed above) or paper application forms can be requested from our office, completed and returned to our office for processing.