



This guide is designed to help parents, students, and families better understand private and alternative borrowing, and to make a process that can often feel complicated or intimidating a little easier to navigate.

Below is an outline of what this guide contains, along with page numbers to help you quickly find each section.

Each section is intentionally short (just a few sentences) to keep the guide easy to read and user-friendly, while breaking down the most important information into the basics you need to know.

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CORE LOAN UNDERSTANDING

1. Federal vs. Private/Alternative Loans

Federal Loans

Federal student loans are funded by the U.S. government. They offer fixed interest rates, flexible repayment options, and borrower protections such as income-driven repayment and loan forgiveness programs. For all graduate students – you are eligible for \$20,500 a year in unsubsidized federal loans if you complete a FAFSA.

Private/Alternative Loans

Loans offered by banks, credit unions, and other lenders. Interest rates may be fixed or variable and are based on credit approval. Repayment terms and borrower protections vary by lender, so it is important to compare options carefully.

2. Fixed vs. Variable Interest Rates

Fixed Interest Rate

A fixed rate remains for the life of the loan. Your monthly payment will be predictable, which makes long-term budgeting easier. This option is often preferred by borrowers who value stability and want protection if interest rates rise in the future.

Variable Interest Rate

A variable rate can change over time based on market conditions. It may start lower than a fixed rate, which can reduce initial payments, but it can increase later. This option may appeal to borrowers who plan to repay the loan quickly or are comfortable with some risk.

3. What is a Cosigner?

A cosigner is a person — often a parent, guardian, or trusted adult — who agrees to share responsibility for repaying a private/alternative loan. Their credit history is considered during approval, which can help a student qualify and/or receive a lower interest rate. If payments are missed, the cosigner is legally responsible for the debt.

4. What is Cosigner Release?

Most private/alternative lenders offer a cosigner release option. This allows the cosigner to be removed from the loan after the student makes a certain number of on-time payments and meets the lender's credit requirements. This may be an attractive option for family members who co-sign just to help the student get the loan but eventually want to remove themselves and have the responsibility to be solely on the student in the future. Each lender has their own requirements and qualifications for co-signer release.

5. What is Deferment?

Deferment is a temporary pause in loan payments. This is often an option that a lender will offer during repayment where students/parents can postpone paying back their loan until after the student graduates.

For some federal loans, interest may not accrue during deferment. For most private/alternative loans, interest typically continues to accrue, which can increase the total amount repaid over time.



6. What is Forbearance?

Forbearance is a temporary pause or reduction in loan payments granted by the lender. It may be available if a borrower is experiencing financial hardship or another qualifying situation. During forbearance, interest typically continues to accrue, which can increase the total amount repaid over time.

7. What is Capitalized Interest?

Capitalized interest is unpaid interest that is added to the original loan balance. When this happens, future interest is calculated on the new, higher balance. This can increase the total cost of the loan over time. Capitalization often occurs after periods of deferment, forbearance, or at the end of a grace period.

BORROWING AND DECISION MAKING

1. How Much Should We Borrow?

Families should borrow only what is needed after scholarships, grants, savings, and payment plans are considered. Even though a loan is offered up to the full Cost of Attendance does not mean you are required to borrow that amount.

Consider your total borrowing over total years of enrollment — not just one semester or one year. Borrowing thoughtfully now can reduce repayment stress after graduation.

2. Understanding Cost of Attendance (COA)

The Cost of Attendance (COA) is an estimate of the total cost to attend school for one academic year.

COA is inclusive of both billable items (tuition and fees) and nonbillable items (books and supplies, transportation, personal expenses, etc.). The COA is not a bill — it is a budgeting framework used to determine financial aid eligibility and help families plan for what their real expense could look like within a given year.

Applying For vs. Accepting Loans

Applying for a Loan

Refers to submitting a formal application with a lender, most commonly for private/alternative loans. This process requires approval and may involve a credit check.

Accepting a Loan

Refers to federal student loans offered as part of a financial aid package. Students choose how much of the offered amount they would like to accept through their school's financial aid system.

Please note: Accepting a loan offer does not automatically mean funds are borrowed until all required steps are completed.



3. Credit Checks and Approval Process

Most private/alternative loans require a credit check as part of the approval process. Lenders review credit history, income, and debt to determine eligibility and interest rates. Students without established credit often apply with a cosigner to strengthen the application.

Many lenders offer a pre-qualification option that uses a soft credit inquiry, allowing families to see potential rates without affecting their credit score. A formal application typically requires a hard credit check before final approval.

4. Comparing Loan Offers

When reviewing loan options, it's important to look beyond just the interest rate. Consider whether the loan offers features such as a cosigner release option, as well as the repayment terms, grace periods, borrower protections, and other benefits. Comparing the total estimated cost of a loan over time can provide a clearer picture than focusing only on the monthly payment. Taking the time to review multiple loan offers can help families make a more informed borrowing decision.

5. Origination Fees

An origination fee is a percentage of the loan amount that is charged by the lender for processing the loan. This fee is typically deducted from the loan funds before they are disbursed, meaning the amount received may be slightly less than the amount borrowed.

Federal direct loans include origination fees. For example, the Graduate Unsubsidized Loan has an origination fee of 1.057% that will come out of the loan. All lenders on our loan website (ELM – which is referred to later) do not charge origination fees. This is an important factor to consider when deciding to take the unsubsidized loan vs. private/alternative. Graduate students will often do both the unsubsidized loan and private/alternative loan.

REPAYMENT AND LONG-TERM IMPACT

1. When Does Repayment Begin?

Repayment timing depends on the type of loan.

Federal student loans typically offer a six-month grace period after a student graduates, leaves school, or drops below half-time enrollment before payments begin.

Loans vary by lender and often give you a choice for repayment. Most commonly you may see choices such as immediate repayment, interest-only (pay only for interest while in school), a flat fixed payment of \$25 a month, or deferred repayment where payment is not due until after graduation, also typically accompanied by a 6-month grace period. These will vary by lender.



2. Interest Accrual While in School

For most private/alternative loans, interest begins accruing as soon as the funds are disbursed, even while a student is enrolled.

For example, if you take out a \$30,000 loan for the year with \$15,000 allocated for the fall semester and \$15,000 allocated for the spring semester, the spring portion of the loan will not start accruing interest in the fall. It will start accruing interest when it is applied in the spring.

Federal unsubsidized loans will accrue interest while the student is in school. (Offered to all students that complete a FAFSA)

3. Loan Consolidation vs. Refinancing

Loan Consolidation

Refers to combining multiple student loans into one new loan. The interest rate is a weighted average of the original loans, and borrower protections remain in place. Consolidation can simplify repayment but does not lower the interest rate.

Refinancing

Offered by some private/alternative lenders and replaces one or more loans — federal and/or private — with a new private/alternative loan. Refinancing may lower the interest rate depending on credit approval, but federal borrower protections are lost if federal loans are refinanced into a private/alternative loan.

4. What Happens if You Miss a Payment?

If a payment is missed, the loan may become delinquent and late fees could be charged. Missed payments can also negatively affect the borrower's and cosigner's credit history.

If payments continue to be missed over time, the loan may go into default. Default can have serious financial consequences, including damage to credit and collection activity.

If a borrower is having difficulty making payments, it is **important** to contact the loan servicer or lender as soon as possible to discuss available options (forbearance, reduced payment plan, interest only payments, etc.)



STEPS TO TAKE NOW

1. Check Your Credit

Your credit history can affect loan approval and the interest rate you are offered.

Students and families can review their credit reports for free and check for errors or outdated information. Taking steps to improve credit — such as paying bills on time, reducing existing debt, and avoiding unnecessary credit inquiries — can strengthen future loan applications.

Individuals can review their credit reports for free once per year from each of the three major credit bureaus at [AnnualCreditReport.com](https://www.annualcreditreport.com). Reviewing your credit report does not affect your credit score.

Many banks and credit card companies also provide free access to your credit score through their online platforms. Monitoring your credit before applying for a loan can help you identify errors and understand where you stand.

2. Utilize RISD Resources

By clicking [HERE](#) it will take you to our website where you can view our RISD Private/Alternative Loan Comparison Tool. This is a chart that was created by our office to compare all the basic information between lenders that work with RISD in one place.

We also utilize ELM Select, an online marketplace for Graduate students and families, to host and list these lenders. You will be able to view the information more in more detail, see all the options, and it will provide you with their websites, contact info, and an option to apply when ready

Graduate students [CLICK HERE](#) to go to ELM Select

3. Utilize RISD Counseling

Finally, we encourage you to sign up for a counseling meeting if you have any questions or email us (sfs@risd.edu). We have counselors who are here and ready to help!

[Sign up for a 1:1 meeting with SFS here](#)