

Putting it All Together

Imagine that you are considering whether to borrow \$2,500.00 from Lender A or Lender B in the chart below. After weighing the options, you've decided to delay making payments on your loan until you graduate, which you anticipate doing in four years. You also receive a six-month period following graduation (grace period) before making payments.

Which loan is best for you? While the APR is a good measurement, it may not always be the best indicator given your particular circumstances. You also need to consider whether the monthly payments fit your budget, and whether the fee allows you to have all the money you need at the time you take out the loan.

Loan Comparison	
Lender A	Lender B
▶ Interest rate: 5.00%	▶ Interest rate: 4.75%
▶ Fee: \$50.00 (2% of loan amount)	▶ Fee: \$75.00 (3% of loan amount)
▶ Loan term: 51 months in-school & grace period; 10-year repayment term following graduation	▶ Loan term: 51 months in-school & grace period; 10-year repayment term following graduation
▶ Frequency of compounding interest while you are in school: semiannually	▶ Frequency of compounding interest while you are in school: annually
▶ Finance Charge: \$1,476.40	▶ Finance Charge: \$1,407.80
▶ Monthly Payments: \$32.72	▶ Monthly Payments: \$31.94
▶ Total of Payments: \$3,926.40	▶ Total of Payments: \$3,832.80
▶ APR: 5.21%	▶ APR: 5.05%

The Truth in Lending Act Disclosure

The federal Truth in Lending Act requires lenders to disclose key terms of the lending arrangement and all costs in a uniform manner. An important component of the disclosure is the Federal Box, which appears near the top of the Truth in Lending Act disclosure. Using the information from Lender B in the comparison to the left, the Federal Box would look like this:

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf.	The amount you will have paid after you have made all payments as scheduled.
5.05%	\$1,407.80	\$2,425.00	\$3,832.80

Note that while you will be repaying \$2,500.00, the Amount Financed shows \$2,425.00. The Amount Financed is calculated by subtracting any prepaid finance charges (\$2,500.00 minus \$75.00, or \$2,425.00).

The Oklahoma College Assistance Program (OCAP) provides college access, aid awareness, financial literacy and student loan management programs and services for students and parents. We have served Oklahomans for more than 40 years as an operating division of the Oklahoma State Regents for Higher Education.

Remember, **always** exhaust all federal loan options before considering private or alternative student loans! Other questions about paying for college? OCAP can help. To learn more, call 800.442.8642 (toll-free), e-mail InfoBox@ocap.org or visit www.OCAP.org.



Private Student Loans

Understanding the Cost of Borrowing

