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## Two Types of Student Loans: Federal & Private

### Federal Student Loans:-

Federal student loans are student loans offered by the federal government, whereas private student loans are offered by private lenders and banks.

While there are many types of federal student loans, U.S. Citizens and eligible non-citizens pursuing their MBA are typically eligible for the Direct Unsubsidized Loans and the Direct PLUS loans (also known as the Grad Plus loans).

All federal student loan interest rates and fees are set at the start of the academic year and remain fixed for the life of the loan. Federal loans come with a standard repayment schedule and offer a wide range of repayment assistance options.

The [Direct Unsubsidized Loans](#) are more affordable than the [Direct PLUS Loans](#) however, MBA students are only able to use the Direct Unsubsidized loans for the first \$20,500 they need to borrow. For any amount beyond that, the Direct Plus loans are utilized.

For loans disbursed after July 1st 2019 and before July 1st 2020, the interest rates and fees are:

	<b>Direct Unsubsidized Loans</b>	<b>Direct PLUS loans</b>
Maximum Loan Amount	\$20,500	Up to Cost of Attendance minus other aid received
Interest Rate	6.08%	7.08%
Origination Fee	1.059% - 1.062%	4.236% - 4.248%

### Aside:-

To apply for federal student loans, students must complete the Free Application for Federal Student Aid (FAFSA).



## Private Student Loans:-

To apply for private student loans, students must complete an application with one or multiple lender(s) of their choice.

After you submit an application and receive approval for a private student loan, you typically will be presented with multiple options such as:

- Variable or Fixed Interest rates
- Loan term
- Repayment Plan

It's important to understand what you're choosing and why.

## Fees

All private student loan lenders do not charge the same fees. Some lenders may charge

### Application fees:-

A fee charged by a lender to apply for the loan

### Origination fees:-

A fee charged by a lender on entering into a loan agreement

### Prepayment Penalties:-

A prepayment penalty is a fee you'll have to pay if you pay back your loan ahead of the predetermined schedule.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they do not charge any of these fees. No application fees, no origination fees and no prepayment penalties.



## Variable vs Fixed Interest Rates

A Variable Interest Rate can fluctuate up or down over the course of your repayment period as the index selected by the lender fluctuates up or down. The most common index used for student loans is the London Interbank Offered Rate (LIBOR) index. As this changes, so will your interest rate.

A Fixed Interest Rate remains the same for the life of the loan. The interest rate you receive when you take out the loan will be the same interest rate you have throughout the entire repayment period.

While the variable interest rate may be cheaper on the day of your application, you should consider your personal tolerance for the risk that it could go up or down over the years.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they allow you to choose from competitive Variable and Fixed Rate options.

## Interest Rates

As mentioned previously, there are two types of interest rates – fixed and variable – and most lenders offer both options.

However, when it comes to the actual interest rates, don't assume that all lender's rates are the same. Some lenders can offer better pricing than others.

At LeverEdge, we got multiple lenders to compete against each other and negotiated low interest rates. In fact, through LeverEdge, MBA students get a rate reduction of 0.4%. To learn more about the rates the negotiated deal, click [here](#).



## Loan Term or Repayment Term

The loan term is the amount of time you will take to repay the loan. Paying the loan back sooner will result in a lower overall total cost, but it will also result in larger monthly payments. Choosing a longer term will help you manage your monthly payment, but it will be more expensive overall. The terms offered by lenders vary, and many lenders assign you a term without giving you the choice.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they allow you to choose from a wide variety of terms: 5 Years, 7 Years, 10 Years, 15 Years or 20 Years.

## Repayment Options

The biggest decisions when it comes to choosing a repayment option are:

1. Whether you want to make payments while you are in school or defer repayment until you graduate.
2. How much you want your monthly payments to be while you are in school

Making in-school payments helps reduce the overall cost of the loan as you start paying down interest sooner. Some lenders will give you more options than others.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they allow you to choose from a wide variety of repayment options:

1. Fully Deferred (or no payments in school)
2. Flat (or \$50 monthly payments in school)
3. Interest Only (or interest payments in school)
4. Full Repayment In School (or principal and interest payments in school)



## Auto Pay Discounts

The loan term is the amount of time you will take to repay the loan. Paying the loan back sooner will result in a lower overall total cost, but it will also result in larger monthly payments. Choosing a longer term will help you manage your monthly payment, but it will be more expensive overall. The terms offered by lenders vary, and many lenders assign you a term without giving you the choice.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they allow you to choose from a wide variety of terms: 5 Years, 7 Years, 10 Years, 15 Years or 20 Years.

## Special Discounts

Some lenders will offer unique opportunities to reduce your interest rate even further. For example, you may see a “relationship discount”. A relationship discount can reduce your interest rate for using additional products or services offered by the same lender.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because they offer a 0.25% rate reduction upon employment at graduation\*.



A co-signer is a person who is obligated to pay back the loan just as you, the borrower, are obligated to pay.

Many private student loan lenders will require borrowers to have a co-signer. Others, may not offer their lowest rates to borrowers who do not have co-signers.

At LeverEdge, we selected Laurel Road as our exclusive lender for Student Loans because:

1. Borrowers with credit scores > 700 are not required to have a co-signer
2. Borrowers without a co-signer can get the lowest rates advertised by Laurel Road

## How the private loan process works:

The process to apply for and get approved for a student loan can take 2-10 weeks depending on when you start the application and your school's certification process. Normally it is best practice to start the application process at least 30 days before your program's tuition due date.

Here are the steps involved:

### **1. Apply on the lender's website (2 to 15 minutes)**

You'll enter your personal information, school information, and your requested loan amount in order to apply for a loan.

Many lenders will give you a preliminary rate estimate without pulling a hard credit check. At a minimum, you will receive a general disclosure document showing you interest rate ranges and example repayment options. This is a required form for lenders to provide you with.



## **2. Formally submit your application and get your approval decision (0 to 3 days)**

Once you have reviewed your disclosure documents you will officially submit your application. This will kick off a hard credit check which allows lenders to, among other factors, determine whether to approve you for the loan and what your rates will be.

Some lenders have an instant process, while others require a manual check which can take a few days.

The result will come back with one of 3 results: approved, denied, or eligible with a creditworthy co-signer.

## **3. Accept and sign your loan terms**

If you are approved, your next step is to choose your loan terms and accept the loan.

This is where you are able to choose between variable and fixed interest rates, and different repayment options (loan term and in-school payment plans).

You'll sign the remaining documents to confirm the terms and conditions.

## **5. Wait for school certification (1 to 6 weeks)**

Your personal responsibilities are pretty much done here. The rest of the process generally occurs between the lender and your school (unless there are any issues you need to be notified about).

During certification, the school approves your enrollment status, anticipated graduation date, and loan amount requested compared to your cost of attendance (COA). Schools can either certify the loan as is, or request changes based on the student's status.

The process typically takes 1 to 2 weeks, but could take longer depending on how early you apply (some schools won't start certifying until tuition bills officially come out) and your school's certification process.





## 6. Your funds are disbursed

Loan disbursement is how your school receives the funds to pay for your education. Typically, the lender sends funds directly to your school, they are not sent to you.

For most schools the disbursements will be sent in 2 payments, if you applied to cover more than one term. Universities set their own disbursement dates, which are normally around the beginning of the semester.

Any loan amount you have requested above the cost of tuition would be transferred to you by the school. This is commonly known as a “refund” back to you.

## 7. Repaying your student loans

Payments for your loan are made through your chosen lender’s portal.

Depending on the repayment plan you have chosen, you may need to start making payments as soon as you start school (in-school payments) or you will have a grace period and not need to make any payments until after you graduate (deferred payments).

## So what type of student loan is best for B-Schools?

If you apply for financial aid, your school will likely include federal student loans as part of your financial aid package.

It’s important to understand that you have a choice and you don’t have to take the federal student loans. You may be able to get a more affordable private student loan instead.

So, there are two types of student loans - federal and private

Federal student loans are funded by the federal government. Private student loans are made by a lender such as a bank, credit union, state agency, or a school.



For many students, more affordable private student loans make sense especially when you are confident you will be able to pay them back after you graduate.

You can check out our calculator to help you understand how much you can save by using the private student loan negotiated by LeverEdge here:

<http://leveredge.org/federal-vs-negotiated-deal-calculator>

Here is a quick comparison of the cost of Federal Loans and the loan negotiated by LeverEdge.

	Federal Student Loan	LeverEdge Student Loan
Interest Rate	6.08% for first \$20,500 7.08% above \$20,500	As low as 4.24%
Origination Fees	1.059% for first \$20,500 4.236% above \$20,500	No Origination Fees :)

**\*For a \$70,000 loan paid back over 10 years, the difference for someone with good credit is often more than \$15,000!\***

## Students fall for the myth that private student loans are more expensive than federal loans

### So why do people take federal loans?

Often students take the federal loans because they are not aware of their options or fall for the myth that private student loans are likely to be more expensive.

In reality, private student loans can be much cheaper. That being said, the federal loans have certain features that private student loans do not. Often MBA students don't qualify or need these features but one should consider these as they are comparing their options. These include features like:

#### 1. Income Driven Repayment Plan

(a) An income-driven repayment plan sets your monthly student loan payment at an amount that is intended to be affordable based on your income and family size.



## 2. Public Service Loan Forgiveness

(b) The PSLF Program forgives the remaining balance on your Direct Loans after you have made 120 qualifying monthly payments (10 Years!) under a qualifying repayment plan while working full-time for a qualifying employer.

## The Average MBA Grad Is NOT Eligible for Income-based Repayment Programs

The average graduate at the programs below isn't even eligible for Income-based repayment programs most of the time.

Assumptions:

- Total debt at graduation = \$130K (avg. debt for LeverEdge members)
  1. First \$41,000 are Unsubsidized Federal Loans at 6.08% interest
  2. Remainder is Grad Plus Federal Loan at 7.08%
- Living in California, New York, Illinois, or Massachusetts (you can check other states but the result will be the same)
- Single, Married, or Head of Household

You can check for yourself:

<https://studentloans.gov/myDirectLoan/repaymentEstimator.action>

Average Salary + Bonus for 2018, Data reported to U.S. News and consolidated by [Poets & Quants](#)



MBA Program	Average Salary + Bonus	Eligible for Income-based repayment?
Stanford GSB	\$173,989	No
Harvard Business School	\$167,148	No
Wharton	\$166,930	No
Columbia Business School	\$163,577	No
Chicago Booth	\$159,911	No
Dartmouth Tuck	\$158,194	No
Cornell Johnson	\$157,182	No
Northwestern Kellogg	\$156,661	No
Virginia Darden	\$156,650	No
MIT Sloan	\$156,173	No
Michigan Ross	\$155,568	No
NYU Stern	\$154,280	No
UC-Berkeley Haas	\$153,498	No
Duke Fuqua	\$153,363	No
Washington Foster	\$151,474	No
CMU Tepper	\$149,503	No
UCLA Anderson	\$149,037	No
Yale SOM	\$148,118	No
Emory Goizueta	\$147,199	No
USC Marshall	\$146,516	No
Texas-Austin McCombs	\$145,465	No
Rice Jones	\$140,603	No

### I already took the federal loans, can I switch?

Yes! In fact, you can replace your federal loans with the LeverEdge deal up to 120 days after the loan has been disbursed. The federal loans will not even charge you the origination fee if you cancel the loan within 120 days of the loan being disbursed.

Switching is easy.

[Include Instructions to Switch]



## What is special about the LeverEdge Student Loan?

LeverEdge is not a lender. LeverEdge is a start-up out of Harvard Business School. We use group buying power to negotiate even better private student loans.

In March, 2,000+ Students at HBS, Wharton, Columbia, Haas and other top business schools got together via LeverEdge, the first collective bargaining group for MBA student loans.

We approached every lender we found and attempted to negotiate a deal that was better than anything available in the market.

The results: an exclusive 0.40% rate reduction for LeverEdge Members (btw, LeverEdge is free to join). The average member saves ~\$15,000 compared to federal loan options.

Even after extensive research, our members can't find a better student loan than the one negotiated by LeverEdge.

To check your rates through the negotiated deal, click [here](#).

But you don't have to believe us - just check out these screenshots of students talking about it with their classmates.





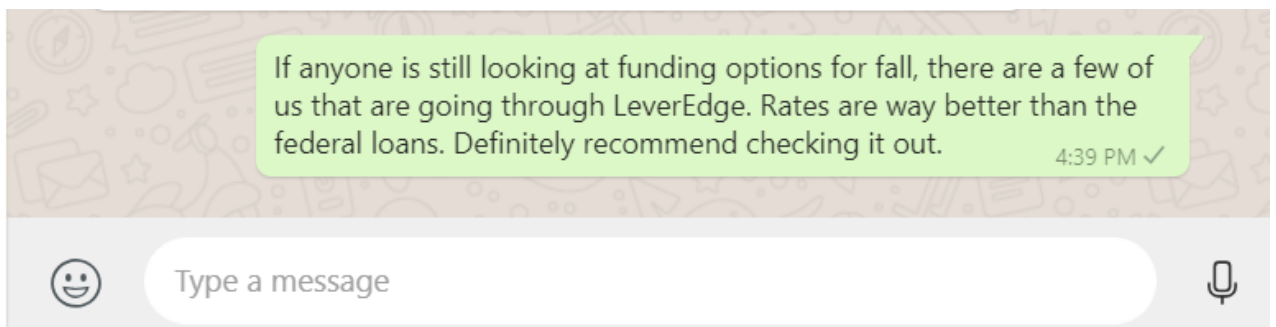
**[REDACTED]** started the conversation

Jul 17, 3:02pm  
Anyone, Active

Hi LeverEdge Team,

I'm sure you get a lot of mail, but I just wanted to extend a thank you for everything LeverEdge has done this summer. The deal I was offered blew all of my other options completely out of the water, and is saving me thousands of dollars. Almost more importantly, the process was painless, communication with participants was outstanding, and LeverEdge is substantially reducing the stress involved in a major career transition. Best of luck with the rest of your endeavors.

With Thanks,





#general



## Today



4:08 PM

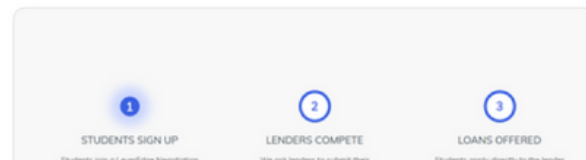
Hi all, if you're needing loans, check out LeverEdge. Started by 2 HBS guys last year. They negotiated a fixed rate for as low as 4.35%. Check out the link. It's not too late to sign up.

<https://leveredge.org/negotiated-in-school-deal>

 leveredge.org

### LeverEdge | Use Group Buying Power to Save Money on Loans

LeverEdge is a student first initiative that uses group buying power to negotiate student loan rates with lenders. The service is free for students.



Message #general



Send



# HAVE ANYMORE QUESTIONS REGARDING THE STUDENT LOANS?

**Drop in your questions on:-** [support@leveredge.org](mailto:support@leveredge.org)

or

**Call us at:-** (206) 569-8739

**Visit our website for more details about the student loan deal at:-**

<https://leveredge.org/negotiated-in-school-deal>

