Paying for School: Student Loans 101

Federal vs. private student loans

Many students jump into student loan debt without a real understanding of what lies ahead.

- **Federal student loans:** These loans are government-funded
- **Private student loans:** These loans can come from banks, credit unions, schools or other private institutions

A look at the differences

How is interest charged?

- **Federal:** The interest rate for federal student loans is set by Congress. It's a fixed rate that's often lower than private loan rates. Fixed rates also tend to be easier to budget for because they stay the same over time.
- **Private:** The interest rate for private student loans varies from lender to lender. They're often variable-rate loans, which makes them unpredictable and potentially more expensive over time.

Are the loans subsidized?

- **Federal:** Certain federal student loans are government-subsidized. This means that the government pays the interest on your loan while you're in school and for a grace period—usually six months—after graduation.
- **Private:** Private student loans are not subsidized, so interest starts accumulating from day one and you're responsible for paying it—even while you're a student.

What are the eligibility requirements?

- **Federal:** There is a range of federal student loans available, and they all have their own eligibility requirements. Some of the criteria are very basic, like being a full-time student and maintaining good grades. Other loans are only available based on financial need.
- **Private:** Although private lenders don't tend to factor in financial need, they may have other requirements similar to those associated with regular personal loans. You may need to have a good credit score, for instance, or have a parent co-signer.

What are the repayment options?

- **Federal:** Federal student loans generally provide more flexible repayment options than private student loans. Options include standard fixed payment plans, graduated payment plans where your payments increase over time as you build your career, and income-based payment plans. Federal loans are also

easier to consolidate.

- **Private:** Private lenders tend to be more rigid when it comes to repayment, and private student loans can be trickier to consolidate.

In addition, be sure to compare other factors including loan fees, tax deductions, spending restrictions, prepayment penalties and borrowing limits. No matter how you choose to finance your education, fully understand what you are signing and borrow only what you absolutely need.

Sources: Federal Student Aid, Forbes.com, Investopedia, Vice.com