



## Federal Student Loans vs. Private Student Loans

These days, there are very few students who can afford to pay for college without some form of education financing. Two-thirds of undergraduate students have some debt, and 88% of law students need to borrow to finance their education. Law school students may graduate with an average of \$80,000 in student loans. Typically, law school students have acquired both federal and private debt, but what are the differences between these types of loans? And is one better than the other? Read on for an explanation of both categories of student loans.

Many students rely on federal student loans to help finance their education. The most common federal loan is a Stafford Loan. These may be issued directly from the government to the student, or they may be issued by a private lender, such as a bank or credit union, belonging to the Federal Family Education Loan Program (FFELP). Either way, these loans are guaranteed against default by the federal government.

Something else to remember about Stafford Loans is they may be subsidized or unsubsidized. If you are eligible for a subsidized Stafford Loan, the government will pay the interest while you are in school. Subsidized Stafford Loans are generally given to students who can demonstrate financial need. If you receive an unsubsidized Stafford Loan, you will be responsible for paying all of the interest, although you may have the payments deferred until after graduation. If you choose to defer paying the interest until after graduation, the interest will be capitalized, or added to the loan amount. To qualify for an unsubsidized Stafford Loan, you do not need to demonstrate financial need.

The amount of your Stafford Loan will vary depending on your year in school. However, graduate students may borrow up to \$18,500 each year (with \$8,500 being subsidized) with a combined limit for graduate and undergraduate federal loans of \$65,500 for dependent students. If you are an independent student, the cumulative limit you may borrow is \$138,500 for your graduate and undergraduate studies.

Stafford Loans have variable interest rates, based on the 91-day T-bill, and this interest rate is adjusted each year on July 1. Stafford Loans have an interest rate cap of 8.25%. All lenders offer the same base rate for Stafford loans because the interest rate is pre-determined by the government, although many lenders offer payment incentives and/or discounts to help you reduce your interest rate further. Another benefit of federal loans is you may lock in a fixed interest rate if you choose to consolidate your federal student loans. That way, you will not be affected by adjustments in the interest rate each year.

Students who use Stafford Loans to finance their education will also enjoy a six-month grace period before they begin repaying their loans. The grace period starts upon graduation or any time the student's enrollment status drops to below half-time. During this grace period, no payments for interest



or principal are required. Additionally, in times of financial difficulty, students may be able to defer their payments or apply for a period of forbearance until their situation improves. Federal loans generally qualify for up to two years of forbearance over the life of the loan.

Private student loans have many differences from federal student loans. However, if used properly, they may also be effective tools for education funding. Private education loans are issued by lenders such as banks and credit unions. They are regulated by the federal government, but there are no guarantees against default.

The main difference between federal loans and private loans is that private loans are credit-based. This means that your eligibility is determined by your credit rating. Requirements do vary by lender, but most private lenders will allow you to use a cosigner, or co-borrower, to qualify for a private loan. Furthermore, private lenders may require proof of income from the student or a cosigner before the student is approved for a loan.

The amount you may receive from a private lender also varies. Oftentimes, the loan amount is based on an amount set by your school. However, some private lenders set their own limits and allow students to use the funds for whatever financial needs the student may have. This includes housing, transportation, purchasing a computer, tuition, etc.

Another difference between federal and private student loans is in interest rates. Generally, private loans will have a higher interest rate than federal loans, and the interest rate for private loans will always be variable, even after consolidation. Also, the student's (or cosigner's) credit score may have an effect on the interest rate. Many private lenders start at a prime interest rate and then add a margin depending on the credit score. If the borrower does not have good credit, the interest rate will be higher.

Repayment plans also differ by lender for private loans. However, private lenders may not offer benefits such as forbearance or deferment in times of financial hardship. They also may not offer a grace period, and some private lenders require that the interest payments be made while the student is in school, although most lenders have repayment options to allow deferment of the principal until the student graduates. Also, like federal loans, the repayment term is often 10 or more years for private education loans.

If you are a student, plan to become a student, or are a parent of a student, it is important for you to understand your education-funding options. Private and federal loans may be effectively used in combination to fill in the financial gaps. Regardless of the type of loan you use, remember that it is not free money and it must be repaid. Choose your lender carefully, and weigh your options. After all, you will likely be repaying your education loans for many years to come.