

# Navigating Student Loans

## Roadmap to the Basics of Borrowing

Between the fine print and variable interest rates, understanding student loans can be difficult. If you've started researching student loans you've probably discovered the two basic types: those that have strict borrowing limits but offer low interest rates, and those that offer all the money you need (and then some) but charge high interest rates. So which is right for you? How do you make sure you're selecting the best loans possible and not making a decision you'll regret after graduation? It will take some homework and careful planning, but if you follow this roadmap you should be able to find the right combination of loans to meet all of your needs.

### Federal vs. Private Loans

To start the loan selection process you first need to know about the two basic types of student loans: federal loans and private loans. Federal loans, known as Stafford Loans, are provided by the U.S. government and carry a fixed interest rate—now at 6.80%. Federal loans allow the borrower to postpone principal and interest payments until six months after graduation. Private loans are usually not so generous. They are less regulated than federal loans and often charge high variable interest rates (like credit cards) and the interest starts to accrue immediately. You should use private loans sparingly and only consider them when there's a gap between what federal loans will cover and the final cost of your education.

### PLUS Loans

There is a third type of loan, known as

the PLUS loan, which applies only to parents. It stands for “Parent Loan for Undergraduate Students” and it's a loan that is borrowed by a parent on behalf of his or her child to pay for education. PLUS loans often carry high interest rates and require a credit check. But, these loans may be necessary if a parent earns a high income which prohibits his or her child from receiving federal loans.

### Interest rate comparison

For student loans, as with most debt, you want to select the loan with the lowest interest rate. The national interest rate for Stafford loans is 6.80%, while the average private loan interest rate is currently 8.32%. PLUS loans carry even higher interest rates of 8.50%. The Stafford and PLUS loans have fixed interest rates, while the rates on private loans can change over time depending on the lender and market

conditions. The fixed interest rates provided by Stafford and PLUS loans are an advantage that tip the scale in their favor over private loans. A free website, such as [www.bankrate.com](http://www.bankrate.com), will let you compare all the interest rates for student loans in your area.

## How to apply for student loans

When you want to apply for student loans you should first meet with the financial aid officer at the school you'll be attending to make sure you understand all of your financial aid options. The officer should also help you determine whether or not you'll qualify for federal loans. If you won't qualify for federal loans the officer should provide guidance about what loans you should turn to next, which will probably

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include a combination of PLUS loans and private loans.

If you've narrowed down your list of colleges but haven't made your final decision yet, try to meet with the financial aid officer at each potential school to learn about the financial aid options available. You'll find that some schools are much more accommodating than others.

Once you've done your research you can apply for a federal loan online by visiting [www.staffordloan.com](http://www.staffordloan.com). You'll also be required to fill out the Free Application for Federal Student Aid (FAFSA form). If you're applying for a private loan you'll need to communicate directly with the lender, which will usually be a bank, savings and loan, or credit union.

## Understanding the fine print

The most difficult part of student loans is trying to understand the fine print. If you've started researching student loans then you've probably seen a few words over and over again, but you may not know exactly what they mean. It's important you understand these words because they can potentially save you thousands of dollars.

**Subsidized:** Subsidized loans are loans that the borrower does not have to pay interest on. Instead, a third party (usually the U.S. government) pays interest while the borrower is still in school and interest does not start to accrue until after graduation. You should try to maximize your subsidized federal loans to the fullest extent, but beware; these loans are largely based on financial need so you may not qualify.

**Unsubsidized:** An unsubsidized loan is a loan where the interest starts to accrue immediately, even though loan payments aren't due until six months after you graduate. The fact that interest accrues while you're still in school makes these loans less desirable than subsidized loans.

**Deferment:** A deferment means the borrower can postpone making principal and interest payments on a student loan if certain hardship conditions apply. For example, deferment is allowed while the borrower is still in school, unemployed after graduation, or experiencing certain economic hardship for up to three years. Even though the borrower isn't required

to make payments, interest continues to accrue unless the loan is subsidized.

**Forbearance:** A borrower may qualify for loan forbearance if he or she has difficulty making loan payments on time. Forbearance is similar to deferment, but it's granted at the discretion of the lender and documentation is required to prove economic hardship.

## College Funding Summary

If you've decided the pay-as-you-go strategy won't work for your tuition bill, and you need the help of student loans, consider using them in the following order. These options should only be considered after you've met with a financial aid officer and exhausted all possible grants, scholarship and awards for which you may be eligible.

1. Subsidized federal loans
2. Unsubsidized federal loans
3. PLUS loans (if your parents are willing to chip in)
4. Private student loans (last resort!) YM

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