

## Fact Sheet: Types of Education Loans

### Understanding Loan Options

Loans are a reality for most college students who receive financial aid. Unlike scholarships and grants, loans must be repaid after graduation – there are even some loans that require that repayment begin immediately upon receiving the loan. Certainly you should look for grants or scholarships (“free money”) before you borrow, but, if you do borrow, understanding the different loan types will help you save money in the long run.

Federal loans for education are the best place to start. The interest rate will be lower and there are often ways to reduce the amount you pay. The repayment period for student loans doesn’t usually start until after you leave college and lasts for at least 10 years. There are federal loans for parents too. The largest source of education loans is the federal government through either Direct Loans or the Federal Family Education Loan Program (FFELP).

Private loans are another option, but usually have a higher interest rate.

### Types of Loans

Some loans are based on your need, which is determined when you file the Free Application for Federal Student Aid (FAFSA). Here’s a brief overview of the major loan terms and concepts:

**Subsidized Loans** – Awarded to financially needy students. Interest is not charged until graduation or dropping below a half-time course schedule. In the meantime, the federal government “subsidizes” the loan by paying the interest. Subsidized loans may not be used towards the Expected Family Contribution (EFC). These loans are available from the government or private lenders, such as state agencies and banks. A Stafford Loan may be made as a subsidized loan for students.

**Unsubsidized Loans** – Interest charged from the moment of disbursement. Unsubsidized loans can be used to pay the expected family contribution. The qualification for these loans is simply “financial need” based on the EFC and tuition expenses for a particular school. Unsubsidized loans can come from the government, your school, or lending institutions such as banks and credit unions. Some professional organizations also offer loans to people studying for fields such as medicine, business, and law. Stafford Loans for students can also be made available as an unsubsidized loan.



**Private Loans** – Loans made available from banks, colleges and universities, or other lenders that do not rely on the federal government as a guarantor. Usually these have a higher interest rate than the FFEL or Direct loans. Some of these loans, which may be called either private or alternative loans, do not require certification by the college financial aid office.

Remember, if a lender makes it easy to get large loans, you may be getting in trouble. Not only is the interest rate on private loans usually considerably higher than federal loans, private loans don’t usually have the different repayment options and benefits of federal loans. Getting the money may be easy. Paying it back may not be.

**Consolidation Loans** – A Federal Consolidation Loan allows a borrower to consolidate several types of federal education loans with various repayment schedules into one loan. This simplifies the repayment process, because you make only one payment per month.

Loans being consolidated must be federal, not private loans that were made to the borrower who is applying for the Consolidation Loan. The interest rate and payments on the new Consolidation Loan may be lower, but the extended repayment period increases the total interest charges over the life of the loan. Either Direct or FFEL Consolidation Loans are available to students or parents with federal education loans to consolidate.

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