



Federal or Private: Finding the Loan that is Right for You

With the growing costs involved with obtaining an education, many students have no choice but to rely on student loans. Though student loans are by no means free money, they are a positive way to fund your college education due to the fact that the majority of student loans tend to have lower interest rates than credit cards or home equity loans. But before you sign on the dotted line, it is important to be educated and know about the types of loans and the pros and cons associated with them. Doing so will help you find the loan that will best suit you.

There are two main types of student loans: federal loans and private loans.

Federal Loans

Federal student loans are guaranteed by the federal government, and are the most popular choice of borrowers due to their very low interest rates and extended repayment terms. This generally makes federal loans less expensive than private loans. Federal loans offer benefits such as in-school deferment and grace periods. These benefits allow borrowers to avoid making payments until they have dropped below half-time enrollment status, or been out of school for 6-9 months. This helps the borrower become a little more financially established before they need to begin making payments. Federal loans also offer forbearance and deferment options that let borrowers temporarily suspend payments due to financial or other hardships.

Another large benefit that federal loans offer is that unlike private loans, there are no origination fees, credit checks, prepayment penalties or a need for a cosigner. Also, some federal loans are subsidized, meaning the government pays the interest on the loans while the borrower is in school, in their grace period, or in deferment. And, in the unfortunate event that the borrower dies, federal loans are forgiven upon death.

Unfortunately, federal loans are limited. They basically are given on a first-come, first served basis. There are also application deadlines associated with federal loans. Therefore, if a borrower fails to meet these deadlines, there is no guarantee that he or she will receive a federal loan at all. Also, the amount that can be given in each federal loan is limited, so there is no guarantee that borrowers will be able to get all of the money that they need to cover educational costs. The yearly loan limits are predetermined by the government and vary according to the how far along the student is in their education.

Another disadvantage to federal loans is that many are need-based. For that reason, if you can not demonstrate financial need, you may not qualify for a loan. Subsidized loans and federal grants are based on financial need.



Finally, due to the fact that federal loans are government-regulated, they will not provide funding for students who wish to attend schools that are not certified under Title IV for the Higher Education Act. This may limit possibilities for some students.

Private Loans

Private loans, also known as Alternative loans, are funded by private institutions such as banks, colleges, etc. Private loans are an option for students who can not qualify for federal loans due to not being able to demonstrate financial need, or not meeting the deadlines involved. This is because private loans are not based on need and do not have deadlines associated with their application process. You may apply whenever the need arises.

Unlike federal loans, private loans do not require lengthy paperwork and are disbursed more quickly. Also, private loans tend to have much higher loan limits than federal loans. In addition, some private lenders also offer benefits such as rebates or interest rate reductions.

Private loans may also cover a wider range of education-related expenses than federal loans, such as: computer purchases, costs involved with study abroad, and even previous school purchases. Also, some private loans do not require school certificates through Title IV of the Higher Education Act, allowing borrowers to have more freedom when choosing a school to attend.

Private loans may also assist international students with paying for school, as some private lenders allow for international students to apply for Private Loans with an eligible U.S. cosigner.

As mentioned previously, private loans tend to have higher interest rates than federal loans. This usually makes them more expensive in the long run. Also, because private loans are credit-based, if you have yet to establish credit, or have poor credit, you will most likely be turned away or not receive the amount that you need. For private loans, your credit rating may determine everything from your interest rate to your origination fee amount.

Finally, private loans may not offer deferment or forbearance options, so it is possible that your lender may require you to begin making payments on your loan immediately after you take it out.

Consolidation works for both loans!

Regardless of the kind of loan or loans that you choose to assist you in furthering your education, with EdFed, you have the option to consolidate both. Consolidating your federal and/or private student loans with EdFed will allow you to have just one loan, with one low payment. This will literally save you thousands of dollars off of your student loans!

For federal or private loans, be sure to borrow only as much as you need, because all loans will need to be repaid in the future. Remember, when paying for your education, choose your loans carefully and educate yourself on your funding options.