

Parent Handbook: Types of Student Loans

Before you or your student take out a student loan, you should know the differences between the types of loans available.

Student loans are available as both federal student loans and private student loans.

Federal student loans require your student to fill out the Free Application for Federal Student Aid, or FAFSA. Federal student loans have eligibility requirements as well as limits on how much can be borrowed. Federal loans are also available as subsidized and unsubsidized loans.

Subsidized loans are available to undergraduate students with a financial need. The school determines the amount that can be borrowed. While a student is in school at least half time, the U.S. Department of Education pays the interest on the subsidized loan. This also happens for the six months after a student graduates, and during authorized deferment periods. Unsubsidized loans are available to both undergraduate and graduate students. The school still determines the amount that can be borrowed. A student is responsible for paying all the interest on unsubsidized loans.

Students should maximize their federal student loans before looking at private student loans.

Federal loans are also available to parents to pay their student's college expenses.

These loans have different and less-favorable eligibility criteria and repayment requirements from federal loans for students, so be sure you understand those before accepting. If federal loans and other financial aid are not enough to cover the cost of college, private student loans are another option available to both students and parents. These loans may have different eligibility requirements, including credit scores, which may also determine your interest rate.

And if your student is taking out the loan, they will likely need a cosigner. Private student loans may have fixed or variable rates, which could also affect your decision on which lender to use.

In addition, some colleges may also lend funds to students through their own programs.

Whatever type of loan you or your student take out, you should both understand all of the loan conditions, such as interest rates and repayment, and consider your ability to repay the total amount borrowed for their entire college career.

A general rule of thumb for students is to not borrow more in total than they can realistically expect to make in the first-year salary after leaving college.

No matter what pops up along the way, you'll be prepared for your college financing journey.

Learn other helpful college financing tips in the Parent Handbook.