

# Types of Student Loans Explained: Federal vs. Private

[https://www.collegexpress.com/articles-and-advice/financial-aid/articles/scholarships-grants-loans/types-student-loans-explained-federal-vs-private/?utm\\_source=in-house&utm\\_medium=email&utm\\_campaign=WGOH\\_Wire\\_Vol56\\_031318](https://www.collegexpress.com/articles-and-advice/financial-aid/articles/scholarships-grants-loans/types-student-loans-explained-federal-vs-private/?utm_source=in-house&utm_medium=email&utm_campaign=WGOH_Wire_Vol56_031318)  
by [Julia Quinn-Szcesuil](#)

**There are four major types of federal student loans. Then there are private loans. And if you're thinking about borrowing money for college, you need to know about all of them. Start here.**

With even a semester of community colleges costing thousands of dollars these days, college affordability often makes a big difference in where students are able to go. Luckily, you can usually bring those costs down with federal aid and scholarships. And when you need to fill in the (reasonable) gaps, there are several higher education loan options out there to help you pay your college bills.

But before you sign on the dotted line, it helps to know the differences between these loan options—especially because federal student loans and private student loans are *very* different animals. Here's an explanation of the types of student loans you might encounter out in the wild.

## Federal loans

First things first: to qualify for any federal student loan aid, you must fill out the [Free Application for Federal Student Aid](#) (FAFSA) every year. The FAFSA gives the government an understanding of you and your family's income, expenses, and projected college costs. It then uses that information to determine how much federal aid you'll qualify for. The FAFSA is free, but you have to meet deadlines. You should submit your completed FAFSA ASAP after October 1 each year using the previous year's tax returns. Yes, it's complicated, but you can learn everything you need to know about the FAFSA [here](#).

Using information from the FAFSA, the US government issues different types of federal loans. You can't request one loan over another, but you'll find out what you're eligible for on the financial aid award letter that comes from colleges that accept you. Also keep in mind that there is a maximum on how much you can borrow in federal loans each year; you'll find the breakdown [here](#). For example, if you're a first-year dependent student, you can only borrow up to \$5,500 in federal student loans for your first year of college; this includes subsidized and unsubsidized loans (keep reading the find out the difference!). Here's a look at the main types of federal student loans available to college students.

### Direct Subsidized Loans

These loans are for students with demonstrated financial need. They accrue interest at a fairly low rate (as of January 2017, the interest rate is 3.76%). But "subsidized" means that the government—not you, the student—pays all the interest that accrues during the time you're in school. That can save you and your family a lot of money in the long run. Also, as with many other federal loans, the interest rate is fixed, meaning it won't change over the life of the loan, which is especially great if you lock it in at a low rate. But since you have to apply for a new loan every year, the rate you get on your freshman year loans probably will be different from the rate on your senior year loans.

### Direct Unsubsidized Loans

Unsubsidized loans aren't based solely on financial need. They're useful if you just don't have quite enough money on hand to pay for school but don't qualify for financial need by government guidelines. While unsubsidized loans still have preferable low interest rates, you're responsible for paying the accruing interest, which increases the overall loan payback amount.

### Direct PLUS Loans

If your loans aren't enough to cover your need, your parents can take out PLUS loans to cover education costs (graduate students can also qualify for these loans on their own). Also, the interest rate is higher (as of January 2017, the interest rate is 6.31% fixed).

### Federal Perkins Loans

Federal Perkins Loans are excellent choices for students with great financial need. These loans have a fixed 5% interest rate, and you can borrow up to \$5,000 each year. However, not all colleges participate in this program, so check with your school.

Finally, you can also get a Direct Consolidation Loan (probably after you graduate) that lumps all your existing loans into one payment. You can learn more about the existing federal student loans on the [US Federal Student Aid website](#).

**Related:** [The Student Loan Advice You NEED to Know](#)

### A note about federal work-study

Some students also qualify for federal work-study from their college, which seems like a loan but is more of an award. Work-study is a program in which a student can work at a designated campus job (students must secure these for themselves) and get a paycheck for the work. The amount is considered financial aid, but the family is required to pay the money upfront as part of their college bill. As the student earns the paycheck up to the total amount, the student/family decides how the money is spent, whether it's to pay tuition or as spending money.

### Private loans

---

Private loans through banks or private lenders (like Sallie Mae) help families bridge the gap between federal aid and what they need to actually pay their tuition bill.

Private loans can vary dramatically in terms, from their interest rates to repayment schedules. Typically, private loans have higher interest rates, require a parent or guardian to cosign the loan, and sometimes require payments as soon as the first payment is made to the school. Though you can certainly get private student loans for reasonable rates, in general, they should be seen as a "last resort" after exhausting all your federal student loan options. This is because federal student loans typically have more protections for students, like fixed interest rates and sometimes even loan forgiveness programs.

Student loans can be helpful in paying for college, but they're not something to take lightly. Before taking out any loans, be sure to learn all you can about what borrowing entails. And whether you're getting federal or private student loans, you shouldn't borrow more than you can afford to pay off with your first entry-level salary. In general, that shouldn't be more than 8% of your gross pay. For example, if you earn \$40,000 a year in your first job out of college, you don't want to have more than about \$23,000 *total* in student loan debt. Otherwise, your student loan payments are going to cut into the money you need to pay for housing, your car, food, and just living your life. Or, worse, you could find yourself unable to pay at all, which can put you in [student loan default](#) (it's bad). That's why it's important to borrow smart! (Here's a handy [student loan/salary calculator](#) you can use too.)