Borrowing: The Parent's Role

Most families pay for college using some combination of savings, income and financial aid. Financial aid is money you receive to help cover college costs. Some financial aid, like grants and scholarships, doesn't need to be repaid. Financial aid can also come in the form of loans — money you have to repay. While students are usually the ones who take out student loans, family support in the process can make a big difference.

You should involve your family before borrowing money.

Get Your Parents Involved

You should involve your family before borrowing money. Your parents may be able help you in the following ways:

- Explaining difficult-to-understand language on financial aid forms
- Discussing which loans to choose and how much to borrow
- Completing their tax returns early

You'll need your parents' tax information to fill out the Free Application for Federal Student Aid (FAFSA). Filling out the FAFSA is required for you or your parents to receive federal loans. These loans usually have the best terms, so they're the ones you want to take out first.

Private Loans

Private loans often have higher interest rates and less favorable terms than government loans. But sometimes private loans are necessary.

Here are some things you should know about private loans:

- Banks and other organizations offer private student loans.
- Most private loans are taken out by students. This means the student is responsible for repaying them.
- Because most students have not established credit (proven that they can repay loans), private loans often require a cosigner with good credit. A cosigner is someone who will take responsibility for repaying the loan if the student does not.

College Loans for Parents

If there is a gap between your financial aid award and the cost of college, your parents may be able to help by taking out a parent loan for educational costs. The most common loan of this sort is the federal Parent Loan for Undergraduate Students (PLUS). Consider a PLUS only if your family has run out of other federal loan options that cost less.

Here are some facts about PLUS:

- The loan can cover the total cost of college (tuition, books and living expenses) minus financial aid.
- It is available no matter how much money your family has.
- The loan has a fixed interest rate, which means that the rate will not change for the life of the loan.
- There are several PLUS repayment plans designed to meet the different needs of borrowers.
- PLUS requires a credit check. If your parents do not have a history of bad credit, they'll have a good chance of being able to borrow a PLUS.
- The PLUS application process starts with completing the Free Application for Federal Student Aid (FAFSA).

This article is intended for informational purposes and is not intended as tax or financial advice.

College Loans: The Basics

If your scholarships, grants, income and savings won't cover the cost of college, consider taking out a loan. Repaying the loan will cost you more money, but in exchange, you'll get a college education.

A college education can increase your career opportunities and your future salary. This means that taking out a college loan — as long as you borrow wisely — can be an excellent investment in your future.

How Loans Work

When you take out a college loan, you borrow money and have to repay it. You also have to pay interest — a charge for borrowing the money. Different types of loans have different interest rates. The lower the interest rate, the less money you pay.

Who Provides Loans

There are three main sources of student loans:

- **The federal government** lends almost half of the money college students borrow each year.
- **State agencies** offer college loans. (Some of these have very specific requirements.)
- **Private organizations** like banks, other financial institutions, foundations and colleges may offer loans to students.

Learn more about the types of college loans available.

How to Get Started

To get the best loans, follow these steps in order:

- Complete the FAFSA. It can qualify you for federal loans, which usually have the best terms.
- Contact your college's financial aid office to ask about loans through your college.
- Check with the U.S. Department of Education to find out about state loans.

A loan can be an excellent investment in your future.

How to Compare Loans

Use the Student Loan Comparison Calculator to figure out which loan option will cost you the least in the long run. The calculator uses interest rates and other details to reveal how much you'll actually repay over time.

Why You Shouldn't Borrow More Than You Need

No matter how good the terms of a loan are, it's always cheaper to not borrow money in the first place. For that reason, only borrow what you really need. Remember that you don't have to borrow the entire loan amount you are offered in a financial aid award letter. Anything you borrow now will have to be repaid, plus interest.

Use the Student Loan Calculator or Parent Debt Calculator to figure out how much your family can really pay.

College Loans: Your Strategy

If your grants, scholarships, income and savings don't cover all your college costs, consider taking out a loan. Borrowing money to pay for college can be a sensible choice, as long as you do it wisely. That means understanding all the terms of a loan — not just the interest rate — before you sign. It also means being careful to borrow only what you need. That way, your future self won't be paying back a bigger loan (plus interest) than was absolutely necessary.

Here's an overview of what you need to know about how the three main types of education loans work.

Borrowing money for college can be a sensible choice, if you do it wisely.

Your Best Option: Loans Offered as Part of Your Financial Aid Package

Your college's financial aid package may offer you loans from the federal government, state agencies and the college itself. Usually, the federal government offers loans with the least expensive interest fees. But state agencies and colleges often provide inexpensive loans as well. To qualify for any of these loans, you need to apply for financial aid. Here are the steps to take:

1. Meet all financial aid priority deadlines and special requirements at each college you want to attend. Meeting the deadlines to submit financial aid forms is important because some funds are limited and run out.

2. After Jan. 1 of your senior year, complete the Free Application for Federal Student Aid (FAFSA) even if you don't expect to qualify for grants for students with financial need. You may qualify for need-based loans, such as the Federal Direct Subsidized Loan. ("Subsidized" means that the government pays the interest while you're still in college, which will save you money.) Even if you don't qualify for a subsidized loan, the application will qualify you for other loans.
3. If your chosen colleges require the CSS/Financial Aid PROFILE® or other financial aid forms, fill these out and submit them.
4. Carefully review the award notifications you receive and contact the campus financial aid office if you have questions. Use the online Compare Your Aid Awards tool to discover which financial aid award gives you the best financial options.
5. Select a financial aid package that works for you and your family. If it includes a loan, remember that you are not obligated to borrow the full loan amount the package offers.
6. Complete the paperwork to accept the financial aid package, including signing the associated promissory note (a contract that specifies the terms and conditions of the loan). Someone at your college's financial aid office can help you understand the paperwork.

Your Next Choice: Federal Parent (PLUS) Loan

If you need further help covering college costs, your parents may be able to borrow money through the federal Direct PLUS Loan program. Parents can request PLUS Loans of any amount up to a student's cost of college attendance minus any other aid received. Parents must show that they don't have bad credit, but your family does not have to demonstrate financial need. Federal Direct PLUS Loans have a higher interest rate than federal Direct Loans. That means they're usually more expensive than Direct Loans — but they're usually less expensive than private loans, and they may have more favorable loan terms.

Your Last Resort: Private Loans

If college is still more than you can afford and borrowing more money is possible, consider a private loan. Banks, other financial institutions, and some private organizations and foundations may offer these loans. Private loans require a good credit rating and often call for a cosigner (someone who agrees to pay back the loan if you are unable to repay). These loans have different repayment options than federal loans and will most likely cost you more in interest. Also, they may not have the same kinds of protections in case of disability or death as do the federal loans.

Private loans generally should be taken out only as a last resort.

Here are some steps you should complete before taking out a private loan:

1. Research the various loans that are available.
2. Carefully compare the terms and conditions of each loan, from interest rates and borrower benefits to fees and repayment plans.
3. To figure out how much a loan will really cost you, use the Student Loan Comparison Calculator.
4. Ask your financial aid office if there are other options you should consider first.

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Quick Guide: Which College Loans Are Best?

Taking out a loan means paying regular charges called interest. You can save money by choosing a loan with a low interest rate. A low interest rate means you'll have to pay back less money in the long run. A subsidized loan is your best option. With these loans, the federal government pays the interest charges for you while you're in college. Here are the types of student loans. (Keep in mind that not all students are eligible for every loan.)

Open AllCollapse All

- 1. Federal Perkins Loans
  Colleges may award these loans to students with the highest financial need, using federal government money. The 5 percent fixed interest rate is low, and you don't make any loan payments while in college. You can borrow a total of $27,500.
- 2. Federal Direct Subsidized Loans
  These need-based loans have a low interest rate of 4.29 percent, and the government pays the interest charges while you're in college. This interest rate is fixed, which means it will not change over time. You can borrow up to $3,500 your freshman year, and this limit increases to $4,500 for your sophomore year, and $5,500 each for your junior and your senior year.
- 3. Federal Direct Unsubsidized Loans
  These non-need-based government loans also have a fixed interest rate of 4.29 percent. But they allow you to borrow more money than a Direct Subsidized Loan alone. You can pay the interest while you're in college or add it to the amount of your loan. The second option means you'll end up paying more money over time.
- 4. Federal Direct PLUS Loans
  These non-need-based government loans allow parents (and graduate students) to borrow the total cost of attending college, minus any other aid received. They have a 6.84 percent fixed interest rate.
- 5. Private (Alternative) and State Loans
  These loans from banks, colleges, private organizations and state government agencies usually are not need based or subsidized. They may require good credit, which often means an adult with good credit must cosign the loan. Interest rates on these loans are

often higher than on federal loans, and the rates may rise over time. These loans may also have terms that are not as favorable as those of federal loans.

Types of College Loans

For many students, borrowing money — also known as taking out a loan — is a way to make their college dreams come true. But unlike other types of financial aid, loans have to be repaid with interest. Learn the facts about loans and you can borrow wisely.

Start by understanding some important definitions:

Defer: Some federal loans let you defer — or delay — paying the loan back until after you graduate.
Interest rate: The interest rate is the cost of borrowing money, and is usually a percentage of the loan that is added to the amount you borrow. The higher your interest rate, the more you'll owe over time.
Need-based: Aid that is need-based is awarded to students who are determined to have financial need; that is, the amount they are able to pay for college is less than the cost of attending the college. The federal government offers need-based loans to students. Eligibility for these loans is determined by the Free Application for Federal Student Aid (FAFSA).
Subsidized: Some federal loans are subsidized, which means the government pays the interest on the loan while you're in college. Learn more about the rules for subsidized loans on ed.gov.

For more definitions related to loans and other financial aid, see the financial aid glossary.

Learn the facts about loans and you can borrow wisely.

Types of Loans

The federal and state governments, colleges and private organizations all provide college loans to students and parents. Below is an overview of the types of loans that are available.

Need-Based Loans

- **Federal Perkins Loans** may be awarded by colleges to students with the highest need.
- **Federal Direct Subsidized Loans** are interest-free while you're in college and have a borrowing limit that increases for each year of school you complete.

Non-Need-Based Loans

- **Federal Direct Unsubsidized Loans** charge interest, but allow you to add the interest fees to the amount you borrow until after graduation. However, doing this means you'll actually end up owing more.
- **Federal Direct PLUS Loans** allow parents (or graduate students) to borrow the total cost of college, minus any financial aid received.

State Loans

To learn about college loans that may be available from your state, use the contact information on the U.S. Department of Education's list of state higher-education agencies.

Private Loans

In general, private loans are not subsidized or need-based. They also often require a cosigner — someone who promises to repay the money if the student fails to do so. The interest rates of private loans vary:

- Banks and other financial institutions usually have the highest interest rates.
- Some private organizations and foundations offer lower interest rates. Use our Scholarship Search tool to find these.
- Some colleges offer loans with relatively low interest rates.

Keep in mind that it's important to understand all the terms of any loan before you accept it. Some private loans might offer relatively low interest rates, but their other terms might not be as favorable as those of a federal loan. For example, federal loans generally offer flexible terms — if you don't have a job or become disabled, you might be able to adjust your payments — while private loans may not be as flexible.

Loan Breakdown

See the table below for a breakdown of each type of loan and its current interest rate.

Loan	Need-Based?	Subsidized?	Sponsor	Borrower	Interest Rate (Loans disbursed after July 1, 2015)
Direct Subsidized Loan	Yes	Yes	Federal government	Student - undergraduate	4.29% (fixed)
Direct Unsubsidized Loan	No	No	Federal government	Student - undergraduate	4.29% (fixed)
Direct Unsubsidized Loan	No	No	Federal government	Student - graduate/professional	5.84% (fixed)
Perkins	Yes	Yes	Federal government	Student	5% (fixed)

Direct PLUS Loan	No	No	Federal government	Parent (or graduate/professional student)	6.84% (fixed)
State and Private Loans	No	No	Banks, colleges, foundations, state agencies	Usually student with creditworthy cosigner	Usually higher than federal rates; variable

The U.S. Department of Education provides comprehensive information about these federal loans.

Why Need-Based Loans Are Best

The federal government's Perkins Loan and the Direct Subsidized Loan are need-based loans that may be offered to eligible students. Federal need-based loans are often the best choices for the following reasons:

- The government supports your education by subsidizing the loan (paying the interest fees while you're in college).
- These loans often provide low interest rates.
- They allow you to defer repaying any money until you're out of college and, hopefully, earning an income.
- They don't require a credit check.
- They may provide better benefits than private loans.

So if you qualify for this type of loan, choose it first.