Types of Loans

Taking out student loans is a common and important way to fund college, but make sure you understand what you are getting into. The short-term use of loans gives you money when you need it and can build your credit IF you pay them off properly. Often, loans can be quite affordable with low interest and monthly payments that can adjust based on your income. To this end, knowledge of loan repayment, checking/savings accounts, budgeting, and use of credit cards is also essential.

Subsidized Loans (0% due while in school & you maintain at least half-time status)

The term subsidized applies to the interest payment on your loan. If a loan is subsidized, then any interest that accrues while you are in school or in deferment is paid by the lender. This effectively means 0% of the loan is due while you are in school.

Types of Loans

Federal Perkins and Direct PLUS (Parent) Loans

A Perkins Loan is owed directly to your COLLEGE (up to $5,500 a year). Direct PLUS is a loan parents may take out, usually at a higher interest rate. Perkins Loans are subsidized and Direct PLUS loans are unsubsidized. If you do not qualify for Parent PLUS, it is possible to apply for other unsubsidized loans. More information on all federal loans can be found: here

Be wary of private loans and how you use credit cards

Federal student loans offer protections that private loans may not. Federal loans have flat interest rates, while private loan interest rates depend on the credit rating of your co-signer. Credit cards should be used sparingly. Routine purchases like groceries should not be made with a credit card, because credit cards can encourage overspending.