## UNDERSTANDING STUDENT LOAN

# INTEREST RATES!

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Many people take out loans to pay for college. A **loan** is money you borrow and pay back, with **interest**- a percentage of the total loan amount. Because of interest, you will end up paying back more money than you borrowed in the first place.

## UNDERSTANDING INTEREST RATES

### High vs. Low

Not all loans are created equally. A loan with a **lower interest rate** is much cheaper than a loan with a **higher interest rate**. Federal loans typically have lower interest rates (and therefore cost less) than private loans. Still, even with federal loans, don't take out more than you need because it all has to be paid back eventually.

| Type of Loan | Interest Rate |
|---|---|
| Private Loan | 5%-15% |
| Federal Unsubsidized Direct Loan (Undergraduate) | 4.45% |
| Federal Subsidized Direct Loan (Undergraduate) | 4.45% |
| Federal Graduate Direct Loan | 6.00% |
| Federal Perkins Loan | 5% |
| Direct PLUS Loans (Graduate and Parents) | 7.00% |

*The interest rate for undergraduate Federal Direct Loans varies with the market, but caps at 8.25%

### Fixed vs. Variable

There are two main categories of loans. There are the **federal loans** that you get in your FAFSA Award Letter and there are **private loans** from banks. For maximum affordability and stability, stick to federal loans when you can. Here's why:

Federal loans have **market-based fixed rates**. They vary annually with the market, so when you sign your **Master Promissory Note** (your contract and promise to borrow and repay the loan with interest), you know that they won't change that interest payment on you. Private loans, on the other hand, often have **variable interest rates**, which means that they can change during the time when you're paying the loan, often increasing and making the loan more expensive.

### Subsidized vs. Unsubsidized

Direct Loans come in two types- subsidized and unsubsidized. For **Subsidized Direct Loans** (and **Perkins Loans** as well), you don't need to pay interest while you're still in school; the interest is covered by the federal government. For **Unsubsidized Direct Loans**, you accrue interest while you're in school, but you don't have to pay it back until after you graduate. Federal loans are also a better option than private loans because they offer consumer protections like income-based repayment that private loans do not.

For **private loans**, the interest rate often starts accruing immediately after you take out the loan. Sometimes you have to start making payments right after you borrow the money, even if you're still in school.

The **Perkins Loan Program** is set to expire Oct. 1, 2017

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