

How to Choose the Best Loan for You

College costs are going through the roof, and competition for grants and scholarships is as fierce as ever. The result is that many students and their parents have to borrow money to pay for college. Of the federal, state, and private student loans, which type is best for you? This worksheet will help you evaluate your options.

\$25,250

Graduates of the Class of 2010 owed an estimated average of \$25,250 in student loans.



Which loans are best?

Borrowing loans with favorable interest rates and repayment terms is a good strategy to keep costs down. Follow these guidelines to learn more:

- **Use federal student/parent loans first.** Federal government loans have the most favorable repayment terms and interest rates.
- **Like federal loans, state loans offer favorable terms and conditions.** Visit www.studentaid.com/stateloans to see if your state offers loans.
- **Next, consider private loans.** If you need additional loans, consider a private student loan from a trusted lender. Private loans usually require borrowers to pass a credit check or have a creditworthy cosigner.
- **Credit cards are a last resort.** Credit cards tend to have higher interest rates than federal, state, and private loans.



Do you need to select a lender?

If you are attending a college that participates in the Direct Loan Program, you are all set! The Department of Education is your lender. If you need a private loan, follow these tips:

- **Choose a lender wisely.** Your college's list of preferred lenders is a starting point, but you aren't required to use one of them. Make sure you research various lenders to find the loan that best fits your needs.
- **Shop around for the best deal.** Lenders will offer you different interest rates, fees, terms, and conditions. It's important that you review this information carefully to see which lender is best for you.

A small difference in interest rates can have a huge impact on the total amount you must repay. This chart shows the different total costs for a 10-year loan:

Loan Type	If You Borrow	At This Interest Rate	Estimated Monthly Payments	Total Cost of the Loan
Federal or State Loan	\$10,000	7%	\$116	\$13,920
Private Loan	\$10,000	11%	\$138	\$16,530
Credit Card	\$10,000	17%	\$174	\$20,880

Confused about interest rates, deferment, and other terms? Learn more at www.studentaid.com/loanglossary.

Borrowing Options

Borrowing Options	Annual Maximum	Interest Rate	Repayment Terms	What Do I Do Next?
Federal Perkins Loan <i>The borrower is the student</i>	\$5,500	5%	<ul style="list-style-type: none"> A student is generally given up to 10 years to repay the college or lender, depending on the amount owed. The federal government pays the interest that accrues while the student is in school, during the nine-month grace period, and during periods of deferment. 	<ol style="list-style-type: none"> You do not need to select a lender; the college is your lender. Complete a student loan entrance counseling session. Contact your college's financial aid office for more information. Fill out a Master Promissory Note (MPN). Ask your college for a paper MPN or fill one out electronically at the Department of Education's website.
Federal Direct Loans: Subsidized and Unsubsidized <i>The borrower is the student</i>	<p>Dependent Students: Freshman: \$5,500; up to \$3,500 subsidized Sophomore: \$6,500; up to \$4,500 subsidized Junior: \$7,500; up to \$5,500 subsidized Senior: \$7,500; up to \$5,500 subsidized</p> <p>Independent Students: Freshman: \$9,500; up to \$3,500 subsidized Sophomore: \$10,500; up to \$4,500 subsidized Junior: \$12,500; up to \$5,500 subsidized Senior: \$12,500; up to \$5,500 subsidized</p>	<p>Subsidized 2011-12: 3.4% 2012-13: 6.8%</p> <p>Unsubsidized 6.8% (fixed rate)</p>	<ul style="list-style-type: none"> The standard repayment time is 10 years; however, if consolidated, loans may be repaid over 25 years. Repayment begins six months after student graduates, leaves school, or is enrolled less than half-time. For a Subsidized Direct Loan, the government pays all interest accrued while the student is in school, during the grace period, and during periods of deferment. For a Direct Unsubsidized Loan, the borrower pays all the interest. The interest payments may be temporarily postponed while the student is in college. 	<ol style="list-style-type: none"> If your college participates in the Direct Loan Program, the Department of Education is your lender. Complete a student loan entrance counseling session. Contact your college's financial aid office for more information. Fill out a Master Promissory Note (MPN). If your college participates in the Direct Loan Program, ask your college for a paper MPN or fill one out electronically at the Department of Education's website.
Federal Parent Loan for Undergraduate Students (PLUS) Loan <i>The borrower is the parent</i>	Up to the published cost of attendance after all other aid has been awarded	Direct Loan Program: 7.9%	<ul style="list-style-type: none"> The standard repayment time is 10 years; however, if consolidated, loans may be repaid over 25 years. Repayment begins six months after student graduates, leaves school, or is enrolled less than half-time. The borrower pays all the interest; however, the interest may be capitalized and temporarily postponed while the student is in school or during grace periods. 	<ol style="list-style-type: none"> If your college participates in the Direct Loan Program, the Department of Education is your lender. Complete a student loan entrance counseling session. Contact your college's financial aid office for more information. Fill out a Master Promissory Note (MPN). If your college participates in the Direct Loan Program, ask your college for a paper MPN or fill one out electronically at the Department of Education's website.
Private Loan <i>The borrower is either the student or the parent</i>	As needed	Usually 9-14%	• Varies by lender	<ol style="list-style-type: none"> Select a lender, such as a bank, credit union, or other financial institution. When considering a private education loan, you may want to shop around for a lender that offers the best interest rate, repayment terms, and deferment options, as well as the lowest fees.
Credit Cards <i>The borrower is either the student or the parent</i>	As needed	Usually 11-25%	• Varies by lender	<ol style="list-style-type: none"> Remember, credit cards should be used as a last resort since they tend to have higher interest rates than federal, state, and private loans. The lender is the credit card company. Shop around for the best interest rate and terms and conditions.

More Desirable

Less Desirable