What Every Student Must Know About Student Loans

By the early 2010s, about 12 million students were borrowing money to attend American higher education every year, with around 37 million active borrowers in the system. Estimates for student loan debt went as high as $1 trillion by 2011. By the beginning of 2012, the average student loan balance had risen to $24,301. For the most expensive types of education and training, loan balances rose to above $100,000.

There is no doubt costs are rising – and that graduate wages are not. Thanks to a mixture of education, oversaturation, and recession conditions, about 15 percent of students have late payments and loans in default. More than half of recent graduates in 2012 were underemployed or unemployed entirely, leaving them struggling to make payments. Since the 2005 Bankruptcy Abuse Prevention Act, both federal and private student loans have been immune from outright forgiveness, which means that bankruptcy cannot remove the debt burden (although legislation may change this in the future).

Millions and millions of pennies just might help you pay for college.

In the modern business world a degree is vital for opening doors, and with the broad variety of bachelors and masters programs and the unparalleled access to online degree programs, American students have excellent educational opportunities. However, most students forget to consider their loans until they have already graduated and reached the "trouble" stage of payment. The government provides options for managing debt at this point, but dealing with student debt begins when students choose the right loans at the right terms. Instead of jumping at the first offered loan, students should examine the different options available and choose the right packages for them.

Subsidized Loans

If you have done any research on student loans, you have probably come across options for both subsidized and unsubsidized loans. Although it can look confusing on the outset, the differences are simple. Take Stafford loans as a typical example. When you qualify for a subsidized Stafford loan, the federal government will cover interest costs while you are in school and for several months after you finish school. In 2012, interest rates for these loans were set at 3.4 percent thanks to an extension of low rate regulations, but are expected to eventually double to 6.8 percent in coming years.

Because the government covers interest for what amounts to the first several years of the loan, you should look for subsidized loans before any other option. There are some requirements – you must be an eligible noncitizen or a citizen, and you must complete both high school and the infamous FAFSA. If you are already in loan trouble, you cannot qualify for a subsidized loan. Loan amounts can vary based on your university as well, since the federal government allots different coverage amounts to different schools.

Unsubsidized Loans

When subsidized loans look so appealing, why would you want an unsubsidized loan? Well, subsidized loans tend to be smaller, so for more expensive education you may need to use a mixture of subsidized and unsubsidized debt, especially if new costs arise partway through your education. If you are aiming for a graduate degree, an unsubsidized loan may be your only choice, since subsidized versions are largely reserved for undergrads.

There is no way around it, unsubsidized loans are more expensive than subsidized loans. You must pay interest from day one, and interest can accrue, compounding to add even more debt over time. This makes interest rates even more important. In 2012 Stafford unsubsidized loans had a 6.8 percent interest rate, which accumulated while students were in school but was not in danger of being increased further. Perkins loans are also a possibility.

Private or Alternative Loans

They are a much rarer breed than federal loans, but private loans are also available for students that either cannot qualify for enough federal funds or prefer to use a smaller private loan to cover expenses they cannot pay. Alternative loans have one major advantage: They tend to be flexible, with a variety of payment options and terms to choose from, offered by private lenders throughout the United States. In trade, you will find that private loans are more expensive than federal loans and more difficult to repay when times are tough.

Situational Loans

Some student loans are designed for specific situations. While they often have limited eligibility, the features of a tailored loan can be a godsend if you qualify. One of the most common examples is the loan repayment options offered by the U.S. military, which cover costs of student loans and help defer payments, based on the type of education. There are also international student loans for foreign students attending a U.S. college. Trade and technical schools have their own loans and options such as the Career Training Loan. Graduate students can explore options such as Graduate PLUS loans.

Student Loan Application Process

Eligibility for student loans is a simple process compared to more complex packages like mortgages. In addition to filling out the previously mentioned FAFSA, you will also need to maintain a certain education status, typically making sure you are enrolled at least half-time at an eligible school.

The amount you can borrow depends on several factors, such as your status as a student (dependent or independent). This government site has an excellent chart that shows typical loan limits based on your year of college and status. First year undergrads, for example, can borrow up to $9,500, but only $3,500 in subsidized loans.

Special Circumstances: Adults Returning to School and Studying Abroad

If you are an adult student worried about acquiring student loans when returning to school, feel free to breathe a sigh of relief. “Nontraditional” students older than the age of 30 have access to many of the same benefits as younger students. Federal aid does not have age restrictions, with the exception of the Coverdell Education Savings Account program’s 30 year age cap, which applies to an IRA and not a true student loan.

If you are an American student studying internationally, there are a variety of loan options that can back you up. International private student loans exist just for such scenarios. Federal loans are available for properly accredited schools. Sallie Mae also offers a collection of private loans for students who may need extra cash.

Paying Off Student Loans

With the combination of subsidized, unsubsidized, federal and private loans, there is no single way to pay off student debt. Your personal debt portfolio will probably be unlike any other, especially when it comes to private debt. Like a mortgage, student loans are divided into monthly payments, although each loan will have its own payment and interest rate. Budget enough funds to meet your student debt total each month, and you will have no problems. Around

10 percent of the income from your first job is often enough.

Unfortunately, an income crunch is likely after graduation, so you may need to create a more detailed plan. Your type of loan matters very much at this point, and several solutions are available based on your situation:

- **Private Forbearance**: Private loans tend to be inflexible, although lenders prove willing to offer hardship forbearance if you can prove your income is too low (or nonexistent) to make monthly payments. A forbearance typically lasts for up to a year and allows you to find more steady footing before beginning payments.

- **Consolidation**: Loan consolidation refers to taking out one large loan and using it to pay off your smaller student loans, leaving you with a single, simpler loan to deal with. The new loan may have a fixed rate instead of a fluctuating variable rate, and may offer a longer term, making your monthly payments smaller. However, the interest will also have longer to build up, which can mean paying extra in the long run. Federal programs offer loan consolidation as well, based on what type of student loans you have.

- **Federal Deferment**: A six-month grace period is built into direct subsidized/unsubsidized loans. Since the government understands that economic conditions are not at their best, further federal deferment is also offered for Perkins loans, Stafford loans, and direct subsidized loans. Deferment is much like forbearance and requires certain qualifications.

- **Federal Forgiveness Programs**: In addition to (and frequently combined with) deferment, federal programs offer loan forgiveness, where the government fully cancels a portion of the loan. Typically this requires participation in a government program, but you have a myriad of options, from military and peace corps plans to teacher and medical loan forgiveness for specific occupations.

To make student loans easier to handle, do not forget to deduct the interest you pay from your taxes! The IRS allows most student loan interest to be deducted for the majority of income brackets.

Alternatives and Resources

Standard loans are not the only option available for students. Universities offer a variety of scholarships that can help cover many costs. Peer to peer lending is also gaining popularity. If you can count on an income during your college years, your college may also offer a payment plan system that skips the interest rates of typical loans. The links below provide additional information.

Moneythinking: Reader Question: Are There Alternatives to Student Loans?
Scholarships.com: Resources
Kiplinger: Simple Tuition

Written by: **Henry Jefferson**, Freelance Writer for PersonalLoans.org