Paying for School
STUDENT LOANS 101

- IT'S A -
MONEY THING®

5 THINGS TO KNOW BEFORE TAKING OUT STUDENT LOANS

Paying for college with student loans is a popular way to finance education. Consider these things before signing on the dotted line.

1 Your loans will either be federal or private

In general, student loans come in one of two forms—federal (government-funded) or private (from individual lenders like credit unions or banks). Federal student loans tend to come with incentives like fixed interest rates and the ability to restructure payments based on income; however, with a little research, you may be able to find a private loan with lower interest rates.

2 Short equals less, long equals more

When it comes to repaying your loans, the faster you agree to pay off your debt, the more you'll likely pay per month, but you'll be spending less in interest over the life of your loan. Conversely, if you decide to make smaller payments toward your debt over a longer period of time, you may end up paying significantly more interest over time.

3 Know your grace period

Grace periods—how long you can wait after graduation before your loan payments start—vary, so be sure to find out when your first payment will be due. A grace period can be helpful if you need time to get a job and earn some money before making payments. However, making payments during the grace period can offset some of the interest accruing. Many federal student loans offer a grace period and most private student loans do not. Check with your lender for details.

4 Forbearance and deferment may help in times of need

You may need to take breaks in payments from time to time. Forbearance and deferment can help in these situations. Forbearance allows you to either stop making loan payments or have them reduced for a certain amount of time (interest will likely still accrue). Deferment allows you to stop making payments on both principal and interest for a number of specific reasons. The government may subsidize your interest while in deferment. Check with your lender to see if these options are available to you, and what the circumstances must be to qualify.

5 There's a difference between refinancing and consolidation

Two options to help you get debt-free faster are consolidation and refinancing. Consolidation is the act of combining all of your loans into one payment with an interest rate that will likely be an average of your existing loans. Consolidation simplifies your payment process, but doesn't necessarily reduce your debt burden. Refinancing uses a new loan (hopefully with a lower interest rate) to pay off your existing debts. You'll then make a single payment per month towards your new loan. The lower interest rate can help you dig out of debt faster. You'll need to do a little research to determine which is best for your particular situation.

Is taking out a student loan worth it?

It's not an easy question to ask yourself, but it's one worth considering:

Will the amount of money you're likely to make at your job be enough to pay off your student loan debt?

For example, some lower-paying jobs may not actually end up being worth the price you'll pay in the end.

Before you sign on to any loan, do the math to determine how long it will take you to pay back that loan at the average salary you will likely earn from your job, and determine whether or not you're willing to be in debt for that amount of time.