

Ea\$y Money – Student Loans

What it is: Education is often considered a good investment in your future, but do you know how you will pay for it? Have you saved enough or are you considering Student Loans? College can be expensive and in many circumstances families take out loans in order to pay for it. Do you know how student loans work and the different interest rates offered? Student loans are a serious long term commitment that can impact your future significantly so be careful before you sign on the dotted line.

How it works: Basically there are two types of loans, federal and private. You should seek out and exhaust your federal loan possibilities before agreeing to a private student loan because federal loans have greater flexibility and better interest terms. Federal loans include Perkins, Federal Direct Subsidized Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct Consolidations Loans. Each of these loans has different restrictions and benefits. You can find more information about each loan at the Iowa College Aid website. Also, it is a good idea to talk to your financial aid officer about financing options as they can help guide you to the most reasonable option available to you.

Why it matters: Your credit score matters when considering private student loans and you will pay higher interest rates if you have a low credit score. Interest rates for private student loans can vary considerably, and like mortgages there are fixed rates and variable rates. A variable rate will usually offer a lower interest in the short term but could rise considerably over the term of the loan.

Be cautious of an organization that approaches you about a student loan. The department of education does not send mailers, flyers, or solicit customers. Students and families should complete the Free Application for Federal Student Aid (FAFSA) to find approved financial aid opportunities. Also, neither federal student loans nor private student loans require a processing fee so be careful of marketing opportunities that require a one. If you do get a private loan, talk to your school's financial aid office and discuss your overall financial aid

package and options. They may be able to help with more reasonable options for the upcoming years.

Who should care? Ask yourself do you really need a private student loan or are there other solutions like a grant or work study program? Do you understand the total monthly payment upon graduation? Do you want to be saddled with \$600 to \$800 of monthly debt upon graduation? There are repayment calculators that can help you calculate the amount so that you can set realistic expectations. On many student loans, including many federal loans, any interest that accumulates during school and deferment is capitalized and added to the original balance of the loan. Consider paying at least the interest on your student loan while in college – the savings will add up.

For more information

- Consumer Financial Protection Bureau - <http://www.consumerfinance.gov/paying-for-college/>
- Federal Student Aid <https://studentaid.ed.gov/sa/>
- Iowa College Aid Student Commission <https://www.iowacollegeaid.gov/>
- Iowa State University Extension and Outreach Money Blogs tips <http://blogs.extension.iastate.edu/moneytips/>
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/
- U.S. Department of Education <http://www.myfedloan.org/billing-payment/payment-plans/repayment-schedule-estimator.shtml>
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