

Understanding the Differences between Federal and Private Education Loans



With so many borrowing options available to parents and students, it's easy to be confused about the best way to finance college education. Among the more commonly used options are Federal Education Loans (Stafford and PLUS Loans), and Private Education Loans. The chart below is designed to help you understand the differences that exist between these two loan options.

	FEDERAL EDUCATION LOANS		PRIVATE EDUCATION LOANS
	Stafford Loans	PLUS Loans	
Interest Rate	Effective 7/1/06, Fixed interest rate of 6.80% ¹	Effective 7/1/06, Fixed interest rate of 8.50% ¹	Maximum APR varies by lender
Borrower	Student responsible for repayment	Parent or Graduate/Professional student responsible for repayment	Student and cosigner, if applicable, are responsible for repayment
Credit Review	No debt-to-income or credit check performed	No debt-to-income performed, but a credit report is reviewed	Credit approval process more comprehensive
Loan Limit	May borrow up to the total Cost of Education minus financial aid received	May borrow up to the total Cost of Education minus financial aid received	Borrowing limits vary by lender and by the total Cost of Attendance
Repayment	Deferred until after graduation, withdrawal from school, or dropping below half-time ²	Commonly goes into repayment during enrollment; forbearance option available ²	In-school deferment options vary by lender
Deferment	Longer deferment and forbearance privileges available	Longer deferment and forbearance privileges available	Limited deferment and forbearance options
Insured	Federally insured against death and disability	Federally insured against death and disability	Not federally insured against death and disability
Consolidation	Eligible for Federal Consolidation Loan Program (Federal Consolidation Loan rate cap = 8.25%)	Eligible for Federal Consolidation Loan Program (Federal Consolidation Loan rate cap = 8.25%)	Not eligible for Federal Consolidation Loan Program (may consolidate through private programs)

¹ Actual APRs will exceed the above interest rates. Stafford loans disbursed previous to 7/01/06 will continue with a variable, annually-adjusted rate, capped at 8.25%. PLUS loans disbursed previous to 7/01/06 will continue with a variable, annually-adjusted rate, capped at 9%.

² Interest will be accrued and be capitalized (added to the loan balance) at the end of each deferment or forbearance period for PLUS loans and Unsubsidized Stafford loans.