



Wednesday, April 21, 2010

6 Advantages to Federal Student Loans

Private loans are more expensive and less flexible

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Posted April 20, 2010

Despite the credit crunch, some banks are marketing private educational loans with seemingly low interest rates. And some students think they can save money and hassle by putting their college charges on their credit card. But those funding choices can end up costing thousands in extra interest and fees, says Dan Thibeault, a co-founder of Graduate Leverage, which advises students on funding options. A few hours invested in filling out a Free Application for Federal Student Aid and arranging for federal student loans can save big money and heartache.

[[Video: Tips for Filling Out the FAFSA](#)]

Here's why:

1. Federal loan interest rates are fixed, so payments won't rise if rates rise.
2. The government provides free insurance, so your loans are canceled if you are killed or disabled.
3. The government allows you to defer payments while you attend school at least half-time. (Be warned: the government keeps adding interest on two common kinds of graduate loans: "unsubsidized" Stafford and Grad PLUS. So while you won't be charged penalties or fines, your total debt will keep rising. MBA candidates who borrow, for example, \$8,000 in unsubsidized Staffords their first year, typically owe more than \$9,000 after graduation.)
4. Students expecting to go into low-paying or public service jobs can choose monthly payments that match their low incomes by applying for "Income-Based Repayment." That program requires them to pay no more than 15 percent of their income, instead of a fixed payment. Students who take out loans after 2014 can limit their future payments to 10 percent of their income. The first step is [consolidating your federal student loans](#) into one

directly with the federal government. Then, debtors are supposed to fill out an [application](#) that, among other things, enables the Department of Education to look at your tax filings to verify your income. (Warning: there have been complaints about federal staffers and debtors confusing the new IBR with the similar-sounding older program called "Income-Contingent Repayment". In most cases IBR offers lower payments and better terms than ICR, so debtors whose payments seem onerous might want to make sure they are signed up for the right repayment option.)

5. Students who consolidate their loans with the federal government, apply for "Income-Based Repayment," and continue to make on-time payments can get at least some of their debts forgiven. Public servants can wipe out their remaining debts after 10 years. Currently, those with low incomes who continue to make payments can wipe out their remaining federal student debt after 25 years. Starting in 2014, the length of time until low-income forgiveness will drop to 20 years on all new loans.

6. Unlike some private lenders, the federal government doesn't charge you anything extra for repaying your student loans early.

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