

What are the different ways to pay for college or graduate school?

It's important to first research financial assistance you won't need to repay before considering student loans, but if you need additional assistance, apply for federal student loans before private loans.

Financing a college education is a significant investment, and there are several options that may help you reduce your financial burden after college.

You have a choice about how you pay for your education. Understanding your choices can help you make the right decision for your situation.

Scholarships and grants

Grants and scholarships are often a type of financial aid that doesn't have to be repaid. Grants are often need-based, while scholarships are usually merit-based.

Start by researching available scholarships and grants and applying for as many as you can. The earlier you start, the better you'll be able to plan, so you know what other forms of financial assistance you'll need.

Tuition payment plans

Tuition payment plans, also called tuition installment plans, are short-term payment plans that split your college bills into equal monthly payments.

Tuition installment plans can be an alternative to student loans if you can afford to pay tuition over fixed payments. Payment plans generally vary by college or university, but in addition to breaking up the payments, schools do not generally charge interest. They may, however, have up-front fees or require a larger initial payment than subsequent installments.

Work study

Federal work study programs provide part-time jobs for undergraduate and graduate students to help pay for their education expenses. Work study programs are available through your college or university and are based on your school's funding level, the availability when you apply, and your financial need.

TIP: Ask your financial aid office about the options for getting paid for work-study. At most schools, work-study money cannot be used to cover direct costs (like tuition, on-campus housing, and meal plans), because you must pay those bills before you earn the work-study funds.

Federal vs. private student loans

Even after considering the above financial assistance programs, you may still need additional help to pay for college through either federal or private student loans, or a combination of the two.

Federal student loans are made and guaranteed by the Department of Education, including direct subsidized loans, Direct unsubsidized loans, and PLUS loans. Private student loans, however, are provided by banks, credit unions, and other private lenders – with varying rates and terms -- and they don't offer the same protections for consumers.

Here are the key differences between these two types of loans.

Federal Student Loans	Private student loans
<ul style="list-style-type: none">▪ Fixed interest rates, meaning your interest rate will stay the same▪ Income-driven repayment plans base the amount you owe each month on your income.▪ If you experience financial hardships, federal loans allow you to temporarily reduce or postpone payments▪ For Direct subsidized loans, the federal government will subsidize - pay the interest on - your federal student loan while you are in school.	<ul style="list-style-type: none">▪ Some have variable interest rates, meaning your payments can change and increase over time if your interest rate changes▪ Repayment terms are generally not as flexible as federal student loans and vary by lender▪ Private loans may or may not have forbearance options that allow you to reduce or postpone your payments. Available repayment programs vary by lender

Through federal Direct Loans, you may also qualify for a public service loan forgiveness program if you work full time for a qualifying public service employer and make 120 qualifying monthly payments.

Again, it's best to exhaust all your other options, including applying for the maximum federal student loans you're eligible for before shopping for a private student loan.

Choosing a loan that's right for you

If you're considering student loans to help pay for your education, you're not alone. But the more money you borrow now, the more you'll have to spend on monthly payments after you graduate.

Before borrowing

If you are going to school next year, make sure you fill out the FAFSA form and submit it as soon as it opens on October 1. Then minimize the amount you need to borrow by cutting costs, applying for grants and scholarships, and considering other options like working part-time or setting up a tuition installment plan.

1. Learn about different loan types

Most students have two main options for student loans: federal (government) loans or private loans from banks, credit unions, and other lenders. You should research all your options for federal loans, also known as Direct loans, before shopping around for private loans.

The types of loans are:

- **Direct Subsidized:** A federal loan for undergraduate students. You don't get charged interest while you're in school. It is need-based, so whether you qualify depends on your FAFSA information.
- **Direct Unsubsidized:** A federal loan that any undergraduate or graduate student can get (if you haven't reached your lifetime borrowing limit). You are charged interest while you are in school. To cut costs, pay the interest as you go.
- **Direct PLUS:** Federal loans for the parents of undergraduate students, or for graduate and professional students. You must pass a credit check to get these loans.
- **Private:** Loans offered by banks or credit unions. You should shop around for the best offer you can find. Students generally need a parent or other family member to co-sign.

Depending on where you live and other factors, you may have other options. Some states provide low-cost education loans for residents. There are also nonprofits and other organizations that offer low-or zero-interest student loans, often within a specific city or state.

2. Explore your federal options first

For most student borrowers, federal Direct loans are the better option. They almost always cost less and are easier to repay.

Here are some advantages of federal Direct loans:

- **Access:** Most students are eligible for federal student loans. There is no credit check (except for Parent PLUS loans). You will not need a co-signer, which private loans typically require.

- **Lower interest rates:** For most borrowers, federal loans offer lower interest rates than private loans.
 - If you qualify for subsidized loans, use them first. They are your cheapest option since the government pays the interest while you're in school.
- **Fixed interest rates:** Federal loans have fixed interest rates, meaning the interest rate will never change. Interest rates on private loan are often variable, which means your interest rates and payments could go up over time.
- **Flexible repayment options:** Federal borrowers have more options for reducing or pausing payments if they have trouble repaying their debt.

There are some downsides to federal student loans:

- If you default on your loan by not making any payments for 270 days, then the government can garnish (take) all your tax refund and/or part of your wages or Social Security income.
- The amount of money you can borrow is limited. Freshmen can borrow up to \$5,500; from your third year onward, the most you can borrow is \$7,500.

3. If you still need a private loan, shop around to find the best deal

First, make sure you need a private student loan. We urge you to be cautious because private loans are generally more expensive than federal loans and offer little flexibility if you have trouble making payments later on. Your private loan interest rate and monthly payment could change with little warning, and you will have fewer options for when and how much you repay.

However, private loans may be a reasonable option for some borrowers, especially if you have strong credit history. Private lenders may allow you to borrow larger amounts, depending on your need and credit history. If you shop around and can show ability to repay, you may be able to find low interest rates relative to certain federal loans.

Steps to getting a private student loan:

- **Talk to your school's financial aid office.** Most lenders require a form from the school certifying that you need additional aid to cover the cost of attendance.
- **Line up a co-signer.** Most private student loans require one unless the borrower has positive credit history. Co-signers are legally responsible for repaying the loan if the primary borrower doesn't. You may want to consider loans that offer "co-signer release" after a certain number of on-time payments.
- **Shop around for lower interest rates and flexibility with repayment.** Your credit score can take a hit from multiple credit applications, also known as "hard inquiries." To reduce the impact, try to complete all applications within a 2-week period.
 - Some private lenders advertise very low interest rates, which only borrowers with the best credit will qualify for. Your actual rate could be much higher.
- **Don't use a credit card.** It can be a much more expensive way to finance your education. Credit cards do not provide the flexible repayment terms or borrower protections offered by federal student loans.

How do I apply for student loans?

All federal loans made by the U.S. Department of Education require you to complete the Free Application for Federal Student Aid (FAFSA).



Schools that receive information from your FAFSA will be able to tell you if you qualify for federal student loans. Almost every American family qualifies for federal student loans.

For private student loans, you should shop around at different lenders, including banks, credit unions, or other student loan providers. A good practice is to get quotes from at least three different providers. You might first consult your local credit union or bank if you or your family holds an account there. You should also consult your school's financial aid office to learn more about your payment options.

Student Banking: Getting started

Getting your first bank account doesn't have to be scary. This guide will walk you through the process of picking out the bank or credit union that's right for you, setting up an account, and signing up for direct deposit, so you have immediate access to any student loan money you may receive in college.

In this guide you will learn how to:

- Choose the bank account that's right for you
- Open a bank account
- Set up direct deposit for your student loans

Choose a bank account that's right for you

Consider your options

Banking options include traditional banks and credit unions that might have locations on or near campus and offer services like checking and savings account, as well as virtual or online-only banks that usually do not have in-person locations but may offer checking accounts that let you use ATMs owned by other banks to withdraw cash.

Start by looking at banks and credit unions on or near campus. Often the student handbook or new student welcome guide will have a list you can use to start your search. You can also ask for recommendations from other students. It may be more convenient if one of the banks you are considering also has a branch near where you plan to live when you aren't attending school.

Don't feel limited to only the banks or credit unions that have ATMs on or near campus. Some online-only banks will automatically reimburse fees for using any ATM, even if it isn't affiliated with that bank, or allow you to withdraw money at familiar stores. If the account has a routing and account number (most do), you will

be able to use it with your student aid account. Before you sign up for an account, call or go online to ask about the fees they charge and how you can avoid them.

Questions to consider:

- What fees does the bank charge?
- Do checks come free with this account?
- Are there fee-free ATMs close to my home or school?
- Do you have any free online or mobile apps to manage my account outside of a bank branch? Is online bill pay included?
- Does this account work with contactless phone payment apps?

Open a bank account

Once you have decided on which bank is right for you, it is time to open an account. Opening an account can take anywhere from a few minutes to an hour, so plan your time so you aren't rushed.

Before you go

Gather the documents you will need to bring with you. The following items are most common, but before heading to the bank or credit union or applying to a virtual bank online, be sure to check their website for any additional items they may need.

- **Two forms of identification:**
 - The first form of identification must be a U.S. driver's license or passport. Some banks and credit unions accept foreign passports and Consular IDs, such as the Matricula Consular card.
 - The second form of identification can be a Social Security card, your birth certificate, or a bill with your name and address on it.
 - **Money to deposit**
 - You may also need to bring some money in cash, perhaps \$25 to \$100, to deposit into the new account.
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Set up direct deposit for your student loans

You may be entitled to a refund of some portion of your student loans if there is money from your financial aid award left over after your school takes out the cost of tuition and fees. Be aware that if you would like these funds to apply to other things, such as on-campus parking or health insurance through your school, you will need to tell the financial aid office to do so because they can't do this automatically. If you don't need the money that is leftover right away, you can ask your student accounts office to have it apply to the next period and it won't accrue interest until it is taken out or applied to the next term.

For most students, the best option to receive these funds is to sign up for direct deposit with your bank or credit union. After you have your bank account set up, share the account and routing numbers with your school's financial aid office, and they will deposit additional aid funds directly to that account as early as 10 days before classes start. Once the release date has passed—provided you have signed the agreement, completed counseling, and had direct deposit—you can receive your money in 1-3 business days. Checks may take 2 weeks to mail, so make sure the financial aid office has your most up-to-date address, so the check does not need to be reissued.

Tip: To ensure you get your money as soon as possible, first-time borrowers or new PLUS loan borrowers must sign their loan agreement and complete a 25-minute interactive online entrance counseling course through the FAFSA website at least 5-7 business days before you can receive any student loan money.

After you set up direct deposit, money from work study, part-time, or full-time on-campus jobs can be automatically transferred to your account. When the money arrives, you can use checks or your debit card to access it.