

Parent Handbook: How Student Loan Interest Works

Student loans are just one type of financing your college-bound student may need to rely on for their post-high school plans. But before you or your student takes out a student loan, make sure you understand the options, costs and benefits of each loan type. Students and parents both have federal and private loan options, each with their own features, including different types of interest rates and fees, which you should research to know how these affect the loan and your plan to pay it back.

To receive federal loans, you and your student will need to fill out the Free Application for Federal Student Aid, or FAFSA form, before college. Eligibility for loans and other financial aid will be based on a number of criteria. Federal loans for students also have a limit to how much can be borrowed each year. Parents may also take out federal loans to pay their students college expenses.

PLUS Loans have different and less favorable eligibility criteria and repayment requirements from federal student loans, so be sure you understand those before accepting PLUS Loans.

You or your student may also apply for private student loans directly through a loan provider. Those providers may have different eligibility requirements, including credit scores. This may also affect your interest rate. If your student is taking out the loan, they will likely need a cosigner.

Money from a loan will likely be sent directly to the school where tuition and fees will be paid for first. Remaining funds may be disbursed to the student, but you should check on how to refuse funds that are not needed.

You and your student need to re-examine loan needs each year and re-apply for the FAFSA or apply for additional private loans. Student loans are a big responsibility regardless of who takes the loan out and by knowing all the details and having an early repayment plan, you can better handle the debt.

No matter what pops up along the way, you'll be prepared for your college financing journey.

Learn other helpful tips in the Parent Handbook.