FIRST

Financial Information, Resources, Services, and Tools

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Association of American Medical Colleges

Federal vs. Private Education Loans

More so than ever before, both federal and private loans are viable options for financing an education, but it is important for the funding source to be one that best complements the student's expected career path and financial goals. Medical students face a unique situation with their long enrollment periods followed by additional years of training post-graduation. For this reason, careful consideration should be given when choosing a funding source for medical school.

Research and Then Decide

Each loan type has its own advantages and disadvantages. To fully understand the value of each program, you must compare the specific features, including loan terms, interest rates, origination fees, conditions. Do your homework and equip yourself with the knowledge to make an educated decision about the loan product that is right for you.

Benefits of Federal Education Loans

- Numerous repayment plans exist, including some based on the household's income.
- Ability to change from one repayment plan to another (as the borrower's goals/situation change).
- Opportunity to obtain Public Service Loan Forgiveness (PSLF), 20-year Pay As You Earn forgiveness, or 25-year IBR forgiveness.
- Postponement of payments during residency and fellowship using grace, deferment, or forbearance are available.
- Eligible for consolidation through the Direct Consolidation Loan program.
- A student who is not in default and has not exceeded cumulative loan limits can borrow (if eligible) a Federal Perkins Loan and/or a Direct Stafford Loan, regardless of credit history. (A Direct PLUS Loan will require a credit check. If the loan is denied, an endorser with good credit may be added to the loan application to qualify).
- Availability of fixed interest rates that will not rise (or fall).

Before Borrowing a Private Student Loan, Consider The Following

- Most private loan programs offer variable interest rates, although more fixed rate options have become available recently.
- Variable rates may be low, but they can rise or fall as the rate indexes on which they are based change.
- Loan rates are based on the borrower's credit worthiness, although a co-borrower may help secure a better rate. (Co-borrower's credit needs and the length of the co-borrower's obligation should be considered carefully before committing to the loan). Interest rate indexes can be compared at www.bankrate.com.
- Repayment may or may not be required while in school, residency, or fellowship.
- Many times, repayment, deferment, forbearance, grace, and loan forgiveness options are limited, in comparison to federal loan options.
- Death and/or disability loan discharge may or may not be available.

A private loan may make sense if …

- The borrower is ineligible for federal student aid.
- The rate of the private debt is lower than the federal debt, and if it is expected to remain lower for the length of repayment.
- A borrower's certainty of a significant income in the near future that will allow for an aggressive and short repayment term of a variable rate.