Graduate Student Loan Rates

Few students can afford to pay for college without some form of financing, and graduate and professional students borrow even more than undergraduates, with the additional debt for a graduate degree ranging from $27,000 to $114,000. Fortunately, graduate student loan rates are low. Federal law sets the maximum interest rates and fees that lenders may charge for federally-guaranteed loans. Nothing prevents a lender from charging lower fees, and many lenders offer a variety of discounts to attract borrowers.

Grants, scholarships, work-study, and other forms of gift aid just do not cover the full cost of a college education. Many students find that they must supplement their savings with government and private loans. The Federal education loan programs offer lower graduate student loan interest rates and more flexible repayment plans than most consumer loans, making them an attractive way to finance your education.

How can you figure out how much your graduate student loans will cost when the interest rate is often variable? You'll be pretty safe if you figure on a rate of around 8%. That's more than the current rate for federal student loans right now, but rates may go up, and most loans are capped at 8.25% to 9%. (If you're a parent using a home-equity loan, your rates were fixed when you borrowed the money. If yours is a home equity line of credit, however, your rates are variable, so use an 8% interest rate to be conservative.)

At 8%, each $1,000 you borrow will cost you about $12 a month to repay, assuming a 10-year loan. If you're a graduate student and you borrow the maximum allowed under current federal student loan programs - $23,000 in subsidized and unsubsidized borrowing for undergraduates who are still their parents' dependents - your monthly payments will be around $276.

The rate for PLUS Loans disbursed on or after July 1st, 2006 is fixed at 8.5%, while the rate for Stafford Loans disbursed on or after July 1st, 2006 is fixed at 6.8%.

Shop for graduate student loan rates in order help manage your future debt burden. Your school's financial aid administrator can help you consider all of the important factors when comparing loan programs. The guidelines for Federal Stafford and PLUS loans are established by the federal government; however, there are some lenders that make adjustments to the terms in order to provide savings to borrowers. For example, many lenders discount fees on Federal Stafford Loans (that normally would be deducted from the amount disbursed to the borrower). And some lenders offer borrower benefits or payment incentives on Stafford and PLUS loans. Be sure to compare lenders before borrowing your federal student loans.

When choosing a private graduate student loan, there are many things to consider. You should investigate the features of several private loans and prioritize which factors are the most important for you, including the overall cost of the loan, credit criteria and approval rate, monthly payment, grace period, deferment, and forbearance, reputation of the lender, customer service, and other services.

For some borrowers, the overall cost of the graduate student loan is the most important factor when choosing a private loan is the overall cost of the loan (the total amount it costs to borrow). Below are some of the things that contribute to the overall cost of the loan:

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Interest Rate

Notice how the interest rate is calculated. Most lenders charge an interest rate that is based on an index (such as the 91-day U.S. T-bill and Prime Rate) plus a per annum margin percentage. When comparing interest rates, research the current rate of the index being used and then add the per annum margin percentage to get an accurate comparison. (Visit http://www.bloomberg.com/ to find the current rates of a variety of indexes.)

It's always a good idea to find out what the average for the index has been over the past 10-15 years. It is also important to note if the interest is capped at a set maximum. Finally, you should know when and how frequently the interest is capitalized (when the interest is added to the principal of the loan). The more frequently interest is capitalized, the higher the overall cost of the student loan will be.

Fees

As with the federal student loans, there are several types of fees lenders can charge on private loans. When comparing overall graduate student loan costs, you should calculate the cost of the fees to get a fair comparison. If the overall cost of the loan is the most important factor in choosing a loan program for you, be careful not to choose a loan with a low interest rate but high fees (or vice versa). The total cost of the loan is equal to the amount borrowed plus the interest and fees accrued. Calculate the dollar amounts of each and compare the costs.

Credit Criteria and Approval Rate

Not all lenders extend credit to all applicants. Before you apply for a private loan, it is a good idea to investigate the lender's credit criteria and approval rate. You may find your options limited if you cannot meet the criteria set by the lender. You may also find that lenders who offer the lowest overall cost, do not have very high approval rates.

Cosigner Options

Some lenders may offer borrowers the option of using a creditworthy cosigner to increase the number of students eligible for private loans. These cosigned loans may not offer the lowest overall cost; however, they provide access to student loans for those who might not otherwise be able to qualify. Some lenders may also offer borrowers with good credit the option of using a cosigner to reduce the cost of the loan.

Monthly Payment

For many borrowers, an affordable monthly payment is an important factor in choosing a loan. If you expect to borrow a lot of money to pay for school, be sure you can afford to repay that debt when you enter repayment. When estimating what your monthly payments will be, consider the length of repayment and any available repayment options.

Length of Repayment

Some loan programs offer longer repayment periods, which help borrowers with a large amount of debt afford their monthly payments. All other factors being equal, a longer repayment period reduces the monthly payment, but increases the overall cost of the loan due to the continued accrual of interest.

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Repayment Options

Investigate the repayment plans offered by each lender. Some lenders offer graduated repayment options which allow for interest only payments at first, or loan consolidation that allow you to make lower monthly payments. Also, some lenders may offer payment incentives on your private loans that reduce monthly payments.

Grace Period, Deferment, and Forbearance

You may want to choose a loan program that offers a long grace period to ensure that you will have a job before you have to begin making monthly payments. Check to see if deferment and forbearance options are available.

Reputation of the Lender, Customer Service, and Other Services

Check with your financial aid office or other borrowers about their experience with each of the lenders you are considering. If you call to ask questions about the loan program, pay particular attention to the customer service staff that assists you. Also, you may find that certain lenders offer additional services that can be very valuable and convenient to you.