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LOANS

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Subsidized vs. unsubsidized student loans

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In a nutshell

Subsidized and unsubsidized student loans are low-interest federal loans that help you cover the cost of college.

- Subsidized loans are available to undergraduate students who demonstrate financial need.
- Unsubsidized loans are available to undergraduate and graduate students, regardless of financial need.

Related: Guide to student loans

What are subsidized loans?

Subsidized loans are federal student loans given to undergraduates who demonstrate financial need. You'll find out if you qualify for subsidized loans after completing the Free Application for Federal Student Aid (FAFSA) form.

The benefit of taking out subsidized loans is that the government pays any interest that accrues while you're in school or during periods of deferment, provided you're enrolled at least part-time. Once you're done with school and your six-month grace period is up, you'll only owe the original amount you borrowed.

However, subsidized loans do come with lower

Subsidized vs. unsubsidized student loans

In a nutshell

What are subsidized loans?

What are unsubsidized loans?

How to get subsidized and unsubsidized loans

What is the difference between federal direct subsidized and unsubsidized loans?

How do you pay back subsidized loans?

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by Jackie Lam

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by Allison Martin

loan limits than unsubsidized loans. For example, first-year dependent students can receive $5,500 in federal loans, but only $3,500 can be from subsidized loans.

Eligibility criteria

The following borrowers are eligible to receive subsidized loans:

- Undergraduate students who demonstrate financial need.
- Anyone enrolled at least part-time in a school participating in the Direct Loan program.
- Anyone enrolled in a degree-seeking program.

PROS:	CONS:
Deferred interest: The Department of Education pays any interest that accrues while you're still in school part-time, so you'll owe less after you graduate.	**Lower borrowing limits:** Subsidized loans come with lower borrowing limits, so you may have to take out additional federal and private student loans to cover the full cost of college.
Grace period: Your interest will also be deferred during the six months after you graduate from college.	**Must show financial need:** You must show financial need to qualify for subsidized loans, so they aren't an option for everyone.

What are unsubsidized loans?

Unsubsidized loans are federal loans available to undergraduate and graduate students, and you don't have to show financial need to qualify. Interest begins accruing on the loans while

you're still in college, and you're responsible for repaying all of it.

As interest accumulates, it's added to the principal balance and increases the overall loan amount. You don't have to make student loan payments while in school or during grace periods, but making interest payments can prevent the loan from capitalizing, so the interest won't be added to your principal balance.

Eligibility criteria

These borrowers can receive unsubsidized loans:

- Undergraduate and graduate students, regardless of financial need.
- Anyone enrolled at least part-time at a school participating in the Direct Loan program.
- Anyone enrolled in a degree-seeking program.

PROS:	CONS:
More accessible: Unsubsidized loans are available to undergraduate and graduate students, and you don't have to show financial need to qualify.	**No deferred interest:** You're responsible for paying any interest that accrues while you're still in college. That means you'll be paying capitalized interest, which is interest added to the principal balance.
Higher lending amounts: Unsubsidized loans come with higher borrowing limits, making it easier to cover the full cost of college.	**Higher interest rates:** Graduate students will receive higher interest rates on unsubsidized loans, so you'll owe more over the life of the loan.

How to get subsidized and unsubsidized loans

You must fill out the FAFSA to apply for a Direct

Loan or any federal student loan. Your school uses the information you provide in the FAFSA to determine the types and amounts of federal aid you qualify for. The details provided also help your college decide whether you have enough financial need to qualify for subsidized loans.

Once you've completed the FAFSA, you'll receive a copy of your Student Aid Report (SAR). The SAR summarizes the information in the FAFSA, so you'll want to review it to ensure everything is correct. The SAR outlines your Expected Family Contribution (EFC), which determines whether you qualify for Pell Grants or subsidized loans.

Your information will then be sent to any schools you listed on the FAFSA. Those schools will send you a school aid offering, informing you what financial aid you qualify for. It's a good idea to apply at multiple schools and compare the financial aid offers you receive.

What is the difference between federal direct subsidized and unsubsidized loans?

There are some similarities between subsidized and unsubsidized loans — both are part of the federal loan program, and you must fill out the FAFSA to qualify. The following table outlines the biggest differences between the two:

	Direct Subsidized Loans	Direct Unsubsidize Loans
Eligibility	Only available to undergraduate students	Available to undergraduat and graduate students
Qualifications	Must demonstrate financial need	Don’t have to demonstrate financial need
Interest rates	6.53% for undergraduates	6.53% for undergraduat 8.08% for graduate students
Interest repayment	The government pays your interest while you’re in school	You’re responsible fo paying any interest that accrues
Maximum loan amount	$23,000 for undergraduate students	$31,000 for dependent undergrads, $57,500 for independent undergraduat students, $138,500 for graduate students
Repayment	10-year	10-year

term	repayment terms	repayment terms

How do you pay back subsidized loans?

After you graduate from college, you'll receive a six-month grace period before you're expected to begin repaying your loans. Subsidized loans qualify for federal repayment plans, and you'll automatically be set up on a 10-year repayment plan unless you choose another option.

If you can't afford the standard 10-year repayment plan, here are some additional repayment plans available to subsidized loan borrowers:

- **Graduated repayment:** This payment plan starts with low monthly payments, but the amount gradually begins to increase every two years. If you choose graduated repayment, your loans will be paid off within 10 years.
- **Extended repayment:** Extended repayment is available to borrowers with over $30,000 in Direct Loans. The payments are fixed or graduated, and come with 25-year loan terms.
- **Income-driven repayment plans:** Income-driven repayment (IDR) plans are based on your income and family size. There are four different IDR plans, and each comes with slightly different requirements and

repayment terms. After you make a certain number of qualified payments, your outstanding loan balance is forgiven.
- **Loan consolidation:** If you have multiple federal loans to repay, you can consolidate them into a single Direct Consolidation Loan. This can simplify your monthly payments and help you qualify for better repayment terms.

The AP Buyline roundup

The Direct Loan program helps students and parents pay for college, and subsidized and unsubsidized loans are just two of the federal loan options you can choose from. There are benefits to both types, but it's a good idea to max out any subsidized loans you qualify for first since the interest payments will be lower. You can use unsubsidized loans to cover any gaps in what you owe.

Frequently asked questions (FAQs)

Can I have both subsidized and unsubsidized loans?

Yes, many borrowers take out a combination of subsidized and unsubsidized loans. The total amount just can't exceed the lifetime borrowing limits. For example, dependent undergraduate students can borrow a maximum of $31,000 in unsubsidized loans, and $23,000 of this amount can be subsidized loans.

How do interest rates compare?

If you're an undergraduate student, the interest rate is 6.53% for subsidized and unsubsidized loans. The interest rate on unsubsidized loans is 8.08% for graduate students.

What happens if I don't pay interest on unsubsidized loans?

You don't have to make any payments on your student loans while you're still in school part-time or during the six-month grace period. However, if you have unsubsidized loans, the interest will be added to your principal balance, increasing the total amount you owe.

Are there limits on how much I can borrow?

Yes, there are maximum limits on how much you can borrow in Direct Loans. If you're a dependent undergraduate, the limit for unsubsidized loans is $31,000, and no more than $23,000 of that can be subsidized loans. Independent graduate students can borrow up to $57,500, and graduate students can borrow up to $138,500.

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