Funding College With Personal Loans: Our Experts Weigh In

You can use a personal loan to pay for college expenses, but should it be your first choice?

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Personal loans are sought-after for a reason. They can be applied in various ways, such as purchasing a major appliance or completing a home renovation project. If you're wondering whether you can use it to pay for college, the answer is yes, assuming your lender allows it. However, federal loans or private student loans may be better options. Learn more about the potential benefits and drawbacks of using personal loans to fund college, providing more information allowing for better financial decisions.

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Sources:
Education Data Initiative, College Affordability by Urban Institute, PYMNTS and LendingClub

Can You Use a Personal Loan to Fund College?

College is not cheap. The average annual cost of tuition and fees for a four-year degree program from an in-state public institution is $9,349. Private institutions are more expensive at $14,957 per year. These costs don't include housing, books and other expenses, which can easily double the amount to $35,000 or more. When looking at these figures, it's not surprising that most students take out loans to fund college.

A personal loan is sometimes an option, especially since you can use it for various expenses. However, some lenders don't allow you to use your personal loan funds to pay for postsecondary education.

As a result, many students opt for private student loans, which generally have lower interest rates and better repayment terms than personal loans. These may go a long way to help students avoid financial stress and anxiety.

IMPORTANT NOTE

Although personal loans aren't monitored when you receive the funds in your bank account, it is **not recommended** to use them for tuition since other types of financial aid are available.

Key Differences Between Personal Loans vs. Private Student Loans

There are many types of student loans. The ones most commonly discussed are federal student loans and private student loans, though personal loans may sometimes be used. It's best to understand these to determine how each type of loan impacts you and your financial situation.

Here, we'll be discussing the differences between private and personal student loans. Federal student loans are their own beast and constantly in flux.



Interest rates

Lenders determine the interest rates for private student loans, which may be lower than personal and federal student loans. In comparison, the average interest rate for personal loans is 9.41% as of February 2022.



Uses

There are usually very few limitations to using personal loan funds. However, many lenders like Lightstream and American Express do not allow you to use personal loans for post-secondary education expenses. In comparison, you can only use private student loans for qualifying education-related costs, as determined by your lender.



Loan amount

The allowable loan amounts for personal and private student loans vary between lenders and are often based on creditworthiness, unlike federal student loans, which are set amounts based on your educational costs without creditworthiness factored in. Your individual lender will determine how much you qualify for, if any.



Co-signers

Lenders check your credit score, regardless of whether you're applying for a personal or a private student loan. However, a creditworthy co-signer — a person who is willing to take on the debt if you don't pay — may help you get a better rate or terms. Some lenders even require co-signers for young borrowers or those with little or poor credit. You may be able to find some that offer personal loans for borrowers with fair credit.



Disbursement

Personal loans, once approved, are usually deposited into your account. Private student loans are often disbursed to your school's financial office to cover your tuition and other fees. In that case, you can claim the remaining amount and use it for other out-of-pocket education expenses afterward if allowed. Remember, conditions vary by lender and these are not hard and fast rules.



Repayment

Repayment terms for personal and private loans are determined by your lender. Personal loan lenders have varying loan repayment terms. These may be as short as six months to as long as 84. You have more payment options for private student loans, including making payments immediately, paying interest while you're still in school or deferring all payments until after graduation. For private student loans, you may face a bit of a hairy situation. Some lenders allow you to defer payments until after graduation, while others require payments while you're in school, for instance. Generally, you'll accrue interest even when in school, but not always. Check with your chosen lender for details.



Taxes

You can deduct up to $2,500 in qualifying private student loan interest paid on tax returns. Personal loans *may* be tax deductible if you can prove you used every penny of the loan on qualifying educational costs, but this is less commonly allowed.



What Can Students Use a Personal Loan For?

Personal loans for college students can be used in a variety of ways as determined by the lender. While personal loans aren't usually allotted for school tuition and fees, that doesn't mean that a personal loan can't help you with other expenses.

You'll need to spend on housing, food and other needs. We break down how you can use your personal loan funds to cover these additional college expenses. These are general examples and may not apply in every situation. See your lender for specific restrictions and allowances.

Books and supplies

If your private loan doesn't cover these or if you need additional money, you can use your personal loan to buy or check out books. You could also use it to purchase relevant school equipment such as a computer or a laptop.

Housing or rent

Whether you're living on or off-campus, you'll have to pay for housing or rent. Your personal loan funds can cover these expenses if your private student loans can't or won't.

Food

Personal loans are generally fairly unmonitored, so you can use them as you see fit. For instance, your personal loan funds can be used to buy groceries or for a meal out.

Transportation

If you own a car, you know maintaining it is not cheap — you'll need to gas it up, perform routine and emergency maintenance and have it cleaned regularly. Personal loan funds can pay for those.

Entertainment

Breaks and fun outings are necessary for mental health. You can use your funds to go on trips, attend concerts or go to the movies. However, using your loan for gambling may constitute a breach of contract, and illegal activities almost universally do — not to mention they're illegal! So, if something doesn't pass a "gut check," don't use your loan money for it.

Other personal expenses

You spend money on countless other things, whether or not you realize it. These include furniture, clothes or even a mobile plan. Just be sure to not use your loan as "free money," as you do have to repay it with interest. Spend wisely.



Expert Advice: Is Getting a Personal Loan a Good Idea During College?

People have different opinions about whether taking out a personal loan to help pay for college expenses is a good idea or not. MoneyGeek reached out to experts for their views on this subject.

In what situations is it beneficial for college students to take out personal loans?

Would you recommend that college students immediately turn to personal loans to help pay for their college expenses? Why or why not?

Factors to Consider Regarding a Personal Loan in College

Taking out a personal loan may not be the most cost-effective way to pay for school. Still, you shouldn't automatically exclude it from your options. If you've already used other channels, such as taking out a private or federal student loan, scholarships or grants, personal loans can fill in the gaps for additional expenses.

Taking out a personal loan comes with risks, such as needing to begin repayment soon after your lender disburses the funds.

DETERMINE THE BEST DECISION FOR YOU



WHEN TO CONSIDER A PERSONAL LOAN

- **You find rates for personal loans lower than traditional student loans.** There are situations when lenders offer promotional pricing resulting in lower interest rates. It's always best to shop around and compare estimates to get the best deal possible.
- **The program you want isn't covered by traditional student loans.** Traditional student loans may not cover specific educational programs, such as coding "bootcamps" or individual classes not resulting in a degree or license. Sometimes, if a program follows an unusual academic schedule, it won't satisfy the requirements of a typical student loan.
- **You want more control over your loan funds.** Personal loan funds are deposited directly into your account, and you can access the entire amount immediately. As long as you comply with your lender's usage restrictions (if any), you can spend it as you see fit.



WHEN TO FIND OTHER ALTERNATIVES

- **You want flexible repayment options.** Student loans may offer more payment possibilities. You can often defer payment until after graduation or make interest payments while in school. Personal loan lenders won't provide those options.
- **You want to save money.** Private student loans frequently have lower interest rates than personal loans, saving you money in the long run. You can also deduct as much as $2,500 each year in interest from private student loans more easily than from personal loans used for school.
- **You don't have enough credit history.** Most college students don't have enough credit history to qualify for a loan, or their credit scores aren't high enough for a lower rate. You can have a creditworthy co-signer for traditional student loans. Check with your lender to be sure.
- **You don't meet a personal loan's income requirement.** Some personal loan lenders

- **Your expenses are short-term, and you work part-time.** If your additional expenses aren't that high, a short-term loan may be more manageable than a student loan. Some loan terms are between 10 to 20 years, but that doesn't mean you have to take that long to repay it.

may require applicants to meet a specific income requirement to qualify. For example, if you get a personal loan from UpStart, it does require you to be employed and have a gross minimum income of $12,000. Students who study full-time may be better off with a private or federal student loan.

Should Parents Take Out Loans for Higher Education?

A personal loan is a commitment, no matter how small it is. It's best to consider several factors before pursuing this course of action.

If your child doesn't qualify for a personal loan, an alternative is to put it under your name. It may lead to a more positive outcome, especially if your credit score shows you manage your finances well.

On the other hand, a loan you take out — or even one you co-sign on — is your debt to repay. That loan shows up on your credit score, even if your child has agreed to make all payments. This could have repercussions on your financial well-being and mental health.

Reflect on your current financial situation and ask yourself the following questions. It may help you make the best financial decision.



Do you have other existing debts?

Most households are already paying several debts. These may range from mortgages to credit cards. No matter the amount, adding another loan may make your finances unmanageable.



Can your budget afford another loan?

A new loan may wreak havoc on your household budget. It increases your expenses, and if you don't have ample and reliable income to cover the costs, you may start missing payments. Missed payments generally result in late fees that increase your costs and affect your credit score.



How does another loan affect other financial goals?

Will taking out a new loan affect your retirement savings? Or will it cause you to extend your mortgage, delaying your homeownership? If

the impact is too heavy, it may not be the best option for you.



Do you have a good credit score?
How's your current financial standing? It may be higher than your child's, but lenders are more likely to charge you higher interest rates if it's less than acceptable.



How much of your stress is because of your finances?
Financial stress and the impact of debt on mental health can lead to several unfavorable outcomes. These include physical health issues and poor spending habits, among others. Is another loan worth it?

Top 5 Personal Loan Lenders to Pay for School

Once you've reviewed your options and still feel that a personal loan is a solid option, start shopping for lenders. Comparing estimates from different companies increases your chances of finding one that meets your needs and preferences.

Remember, you may not be able to use funds for tuition, but you can still maximize it for other college costs.

Here are recommended personal loan lenders for students and relevant information to consider.

Lender	Requirements	APR	Loan Amounts	Co-signers	Terms
Upstart	• A credit score of 300 or higher • A source of regular income • A valid email account • A personal U.S. bank account	5.35% to 35.99%	$1,000 to $50,000	No	Three or five years
	• A credit score of at least 640				

Qualifying for a Personal Loan as a College Student

Finding funding for college takes preparation. It’s best to know what most lenders look for in borrowers to increase your chances of getting your loan approved.

Remember, a personal loan may not be the best option in all situations. It's generally best reserved for when you’ve exhausted other means of getting funding and just looking at it as a way to pay for additional expenses. It’s best to understand what you’re entering. Explore the various types of personal loans you can consider and their qualifying factors.

Types of Personal Loans Available to Pay for College

A personal loan is one of your options to fund college or additional education expenses. If you choose to go in this direction, it’s crucial to understand that you can break it down further. You can use several types of personal loans to pay for college, and each comes with benefits and drawbacks. Not understanding their differences may cause you to choose the wrong one, bringing unforeseen risks.

FLAT-RATE PERSONAL LOANS UNDER YOUR NAME

Another option is to take out an unsecured loan, which means you don't need to put up any collateral and place it under your name. Having a flat interest rate means you’ll have a predictable repayment schedule and amount, making it easier to manage. It also helps you build credit as long as you pay on time and in full. However, you’ll need a verifiable source of income to qualify. Lenders will also look into your current credit standing. If you don’t have enough credit history or have a poor credit score, you may not qualify.

CO-SIGNED PERSONAL LOANS

Co-signers may be helpful if you don't qualify for a personal or private loan on your own, or if you qualify for one but the rates aren't acceptable for you. This creditworthy person may help you qualify or get a better deal by signing on the dotted line.

You can often check your rates without harming your credit to find out if you'll need this assistance.

Be sure your co-signer understands their role in the process. After all, they’ll be liable to pay the monthly dues if you can’t, and both of your credit scores are affected.

APPLYING FOR LOANS WITH A CO-BORROWER

Some lenders accept co-borrowers rather than co-signers. Co-borrowers, or co-applicants, share the responsibility of the loan with the person taking out the loan. They will help repay and have access to the assets of the loan, such as a home or a car.

Having a co-borrower can help you get a reasonable interest rate or receive a larger loan amount depending on the lender if you both have good credit scores. If you don't have a good credit score, a co-borrower can still help you.

You can choose a spouse, close family member or friend with good credit, a high income and solid financial management skills. Remember that you will be working together to borrow and repay the loan.

PERSONAL LOANS UNDER YOUR PARENTS' NAME

You still have an alternative if you can't find a co-signer or co-borrower (or your chosen lender doesn't allow it). You can speak with your parents and have them take out the personal loan instead. They might have a better chance of qualifying because it's easier to meet the requirements if you have a longer credit history.

However, your parents may already have other debts, and another loan may cause further financial stress. Also, you lose the opportunity of building your credit score, which may affect future loan applications.

INCREASE YOUR CHANCES OF QUALIFYING FOR A PERSONAL LOAN

Applying for a personal loan may be a good thing. It can allow you to build credit and learn how to manage your finances responsibly. But first, you need to qualify. Here are several items to do before sending in your loan application.



- **Review lender requirements:** The specific requirements between lenders vary. For example, some have a higher minimum credit score prerequisite than others. It's best to do your research to know what you need to prepare.
- **Come up with a realistic loan amount and repayment terms**: Most lenders will ask how you intend to use the funds. But more than that, borrowing an amount that's too large and not having the means to pay it back may cause them to deny your application.
- **Check your credit score**: Borrowers with good or excellent credit scores are more likely to qualify for personal loans. Also, lenders often charge creditworthy borrowers lower interest rates, making your monthly payments more manageable.
- **Find a co-signer or co-borrower**: If your credit score won't cut it or you don't have enough credit history, try to look for someone who can co-sign or co-borrow a loan. Your interest

rates might be lower because of their credit standing, and you can improve your credit standing by paying your monthly dues on time if approved.

- **Have a regular source of income**: Most personal loan lenders require you to have a verifiable source of income to ensure you can pay your monthly dues. Having a job, even part-time, may allow you to fulfill this requirement.
- **Clarify reasons for a declined application**: Don't hesitate to reach out to a lender even if they reject your loan application. Ask for the specific reason why it happened. You may find that tweaking your application details (lowering the loan amount or shortening the repayment terms) may lead to a different outcome.



Common Pitfalls & Ways to Avoid Mistakes When Using Loans for College

Applying for a personal loan could be an excellent way to fund your college expenses. Still, it's best to do the leg work before pursuing it.

Once lenders approve your application and disburse your funds, you must live up to that loan's obligation for the next several years of your life. Avoid sticky situations by exploring common mistakes, such as these below.

1. ### Borrowing more than you need

   Have a clear idea of how much your expenses are. It might be tempting to apply for a higher amount than you need, but that may cause more challenges when you begin payments.

Remember, the bigger the principal, the bigger the monthly due.

2 **Focusing on the monthly payments only**

The fine print is crucial, so don't gloss over it. There might be charges that you haven't considered, such as application, origination or prepayment fees. You may pay more than your expected monthly due if you don't include everything.

3 **Failing to compare lenders**

Lenders offer varying interest rates, payment terms and fees. It's best to have multiple options before deciding, even if you have a preferred lender from the beginning. You might find a better deal in the process.

4 **Not having a monthly budget**

Having a monthly budget is an excellent way to understand your finances. Once your loan is approved, don't forget to include it as an additional expense and review everything. You may need to adjust spending in other areas to ensure you have enough money to pay for your monthly dues.

5 **Missing payments or paying late**

The best way to have a good credit score is to pay your monthly dues on time and in full. Lenders typically charge a late fee for late payments, so it doesn't just affect your credit standing — it also increases your costs.

6 **Only paying the minimum**

Technically, there's nothing wrong with this, but if you have extra cash, you may want to pay a higher amount. It's an excellent way to finish paying your loan early — but ensure your lender doesn't charge a prepayment fee. You can also try applying debt management strategies, such as the debt snowball or the debt avalanche method can help you manage your finances.

5 Alternative Funding Sources to Help You Pay Your Tuition Fees

A personal loan is only one of the many options to pay for your college tuition. Others may come in handy if your preferred lender doesn't allow you to use your funds for post-secondary education or if a personal loan isn't the best option, given your current situation. These other alternatives may even be favorable if they won't increase your debt.



Scholarships

Organizations or institutions may give scholarships due to academic, artistic or athletic merit, among many other reasons. The benefit of finding a scholarship is you are not required to pay anything back. However, the awarding body may have requirements that you have to meet and maintain, such as your GPA.



Grants

Grants are similar to scholarships because you usually don't have to repay them. However, grants often have even narrower requirements, as they're typically based on financial need or a specialized skillset you offer. You can choose between several federal grants, such as Pell Grant, FSEOG or TEACH.



Federal student loans

This option, like personal and private student loans, requires you to make repayments. It shares more qualities with the latter but may offer lower rates and additional benefits. These benefits could include partial loan forgiveness based on your career, guaranteed loan forgiveness after a certain number of payments and some relief in times of crisis.



Work-Study

A work-study program helps students find regular part-time jobs to compensate for living and education expenses. Typically, your school will provide you with opportunities either within the campus or near it. It may also allow you to get work experience within your specific field of study.



Income share agreements

As its name implies, it's an agreement between a school and a student wherein the institution covers a part of your education expenses, such as tuition, room and board. Once you graduate, a percentage of your salary goes to them for a specific period. Remember, it's a percentage, so when your income increases, so does the amount that you pay.