

Federal Subsidized/Unsubsidized Direct Loan versus Private/Alternative Loans Comparison Chart

	Federal Direct Loan	Private/Alternative Loan
Application Process	Completion of the Free Application for Federal Student Aid (FAFSA) and applicable loan documents as instructed by the school. Can be time consuming, but if completed in a timely fashion as instructed by the school students should receive their money “on-time.”	Often a faster application process and turn around on when loan funds can be available, but a self-certification form is required as well as some built in delays in disbursement based on changes in the Truth in Lending Act (TILA)
Cancellation	In some cases your loans can be “discharged” (i.e. canceled) if you meet certain conditions (i.e. death, teacher provisions, etc.)	There generally aren’t any cancellation provisions with these loans...even in the case of death if you have a co-signer. The co-singer would be responsible.
Co-Signer	No co-signer requirement	If you are not deemed “credit worthy” by the lender you may be required to have a co-signer. Most undergraduates need a co-signer.
Credit Worthy	Credit checks are not done for these loans, so a student’s credit is not factored into this.	A credit check will be done and the lender will determine if you are “credit worthy” for the loan.
Deferment	The principal, and interest in the case of a subsidized loan, are all deferred without penalty until six months after you stop going to school at least half-time.	In most cases the lender does not offer any “penalty” free deferments. You will often be charged interest, or have interest capitalized (added to your principal), if you defer payments on your loan.
Interest Rate	Interest is fixed and capped by Congress. For loans disbursed after July 1, 2010 and before June 30, 2011 the subsidized loan rate will be 4.5% and the unsubsidized loan rate will be 6.8%.	Interest is determined by the individual lender and can be as high as credit card rates. There is no government cap or federal protection on the rate.
Loan Limits	These limits are established by Congress.	The lender establishes the limits, but cannot exceed the Cost of Attendance minus other aid.
Origination Fee (“up front” fees)	In 2010-11, the net fee on subsidized and unsubsidized loans is 0.5%.	There are no laws governing this. In most cases, you will pay more in these fees than with a Direct Loan.
Repayment Incentives	The federal government offers interest break reductions, various repayment plans, deferment and forbearance, and at times loan forgiveness.	This varies according to the lender.
Tax Deductible	You may be able to deduct student loan interest even if you do not itemize deductions on your income tax return.	You may not deduct any portion of the interest you pay on these loans.
Additional Information	http://www.jmu.edu/finaid/aidprog.shtml	http://www.jmu.edu/finaid/altloans.shtml
Summary:	If you need a loan, federal student loans are generally “better” and more cost effective debt than private/alternative loans. The process to receive a federal loan is a bit more labor intensive, but the protection you receive on interest rates, fees, deferments, and cancelations generally makes applying for these loans a wiser move than taking a private loan.	