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The 411 on Student Loan Interest Rates

As you're researching your student loan options, you've likely come across keywords that have left you scratching your head. What's the difference between a Direct Unsubsidized Loan with a fixed 6.80 percent interest rate and a Direct PLUS Loan with a variable 3.15 percent interest rate? NerdScholar is breaking down the financial vocabulary.

Interest is money paid for money lent – basically, it's a fee for borrowing money. To fully pay back a loan, you must repay the original amount you borrowed to the lender, as well as the interest collected on the loan. Interest is calculated as a percentage of the loan amount. That interest is collected via an **interest rate,** which is the percentage charged to borrow money. The amount of interest that accrues on your loan from month to month is determined by a daily interest formula.

You probably won't be calculating your daily interest growth over the course of your loan, but it is still important to **understand interest and interest rates**. The student interest rates affect the total cost of your loan.

Fixed rate loans set an interest rate for the life of your loan. Fixed rate loans are available as Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans and Perkins Loans. The Stafford Loan interest rate is fixed.

On the other hand, **variable interest rate loans** will not necessarily remain the same throughout the life of the loan. The rate will fluctuate over the life of your loan based on the change to an index that reflects changes in the market rates.

It's important to understand the **distinction between a fixed and variable interest rate**. You may be offered a loan with a variable interest rate of 1.75 percent, as well as a loan with a fixed interest rate of 3.86 percent. It may be more appealing to jump right into the variable rate loan in anticipation that you will save money over time. Be forewarned: what was once a 1.75 percent interest rate can eventually become much higher than your fixed rate of 3.86 percent.

The interest on Subsidized Loans will not accrue while you are in school at least part-time (translation: you are saving money). On the other hand, Unsubsidized Loans begin to accrue from the moment the government disburses the loan. The Direct Unsubsidized Loan interest rate is also higher than a Subsidized Loan. While federal student loans have standard interest rates **set by the federal government**, the variable interest rates on **private loans** can vary greatly.

After you graduate, you will likely be bombarded with offers to consolidate your loans. A **consolidation loan** combines several student loans into a new loan from a single lender. Then, you will make one payment to the new lender instead of individual payments for your old loans. One of the main advantages of consolidating your federal student loans into one loan is the convenience of making a single monthly payment. Also, consolidation generally extends the repayment period, resulting in a lower monthly payment. This may make it easier for you to repay your loans. However, this extended loan term has a down side: you will pay more interest since you will be making payments over a longer timeframe. Make sure you use the NerdScholar Loan Repayment Calculator Tool to give you an estimate on your payment options.

For more information on the keywords in this article, visit NerdScholarFinance Glossary For Students.