

Are Private Loans the Answer to Student Debt?

Atanu Shaw September 04, 2018



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([Newswire.net](#) -- September 3, 2018) -- Last month, the New York University School of Medicine made headlines after announcing that it would be covering

the tuition fees of all its students. The news has caused quite a stir as student debt continues to become one of the biggest problems facing society today.

There has been a growing uproar over student debts this year. Loans have reached an all-time high and graduates stay in debt years after getting their diplomas. Even after securing well-paying jobs.

According to [The Bankly](#), a finance web portal, there are 44 million Americans with student debt totaling to over \$1.5 trillion. The average monthly loan payment for those between 20 and 30 years old is \$351, but 11.2% of students fail to pay their debt on time.

The [Association of American Medical Colleges](#) also revealed that 75% of graduating physicians have a median debt of \$192,000 even before joining the medical workforce. Some owe more than \$200,000.

At NYU, the annual tuition fee is upwards of \$55,000. The steep fees leave 62% of the School of Medicine student with debt as they graduate. [The New York Times](#) added that the average debt incurred by the class of 2017 is \$184,000.

The growing medical school fees have already affected the industry. It has pushed young doctors to pursue higher-paying specialties instead of primary care like family medicine and pediatrics.

But the medical field isn't the only one affected by college debt. According to a [2017 Federal Reserve study](#), greater student debts cause people to delay marriage and having children. It also lowers the chances of degree holders to enroll in a graduate school, and reduces their willingness to work in lower-paid public interest jobs. It also restricts access to homeownership.

A recent research by [Student Loan Hero](#) also revealed that one-third of borrowers say college loans attributed to their divorce. An astonishing 13% of divorcees even blame their student debts specifically for the split.

Are Private students loans a good option?

With this growing pandemic, what are college students' options?

There aren't a ton of choices, sad to say. And with the amount piling up, some would turn to other means to make ends meet and get a diploma.

When federal aid isn't enough and the savings have been drained out, private student loans become an enticing option for students. These nonfederal loans are often offered by banks, credit unions, agencies, and even schools.

While these may look good at first, it could dig up a whole for students if they don't consider the many fine prints.

Interest Rates

To start of, federal loans often have lower interest rates than private ones. A closer look by [The Bankly](#) revealed that the 2018-19 average interest rates for federal loans run from 5-7.60%. However, average interest rates for private loans could start at 3.69% but zoom to as high as 12.19% — these rates are also fixed throughout the loan term.

Credit Check

Private student loans and the corresponding interest rates are affected by credit scores. Federal loans, except for

PLUS loans, don't do credit checks.

"Private lenders rely on a risk-based pricing model to set their interest rates leading to the fact that the rates you receive from the variety of interest rates they offer depends entirely on your credibility as a borrower," the independent financial web portal explained.

Consolidation

Unlike federal loans which allow consolidation in which multiple education loans can be combined into one loan, private loans do not offer this option.

Consolidation does not only make payments easier with a single monthly bill, it also offers longer repayment terms and forgiveness program options.

Forgiveness Programs

Probably the important difference of all, the federal government offers loan forgiveness programs. Under certain circumstances, loans can be canceled or discharged — whether it's just a part of the loan or the entire loan completely.

Forgiveness types include Public Service Loan Forgiveness, Teacher Loan Forgiveness, Permanent Disability Discharge, and Bankruptcy Discharge.

Private loans do not offer forgiveness programs.

Private student loan pros?

With all these said, do private student loans have any advantages? Of course, they also do. For one, banks may offer higher loan amounts and still have low interest rates — but again, depending on the credit record.

However, given the drawbacks of this type of student loan, it's important to research and compare all the details before making a decision. With debts up to the ceiling, you wouldn't want to bury yourself in more debt because of an uninformed decision.

Source: <http://newswire.net/newsroom/blog-post/00103970-are-private-loans-the-answer-to-student-debt.html>