

How Is a Student Loan Different From a Scholarship?



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You can pay for college in a couple different ways, including using scholarships and student loans. While both are types of student aid, the former are monetary gifts that don't have to be repaid, whereas the latter are debt products that you typically will need to pay back.

Depending on the cost of school, family contributions, and how much you can earn in free aid, you might need to take out student loans to cover any extra funding gaps. Learn more about how a [student loan](#) is different from a scholarship and other ways of paying for a higher education.

Key Takeaways

- Scholarships are free aid, or money given to you that doesn't need to be repaid.
- Taking out federal student loans typically means having to pay them back after you leave school.
- Scholarship eligibility varies based on merit or need, while certain loans require a specific credit score or income.

Key Differences Between Student Loans and Scholarships

Repayment Obligation

Both [federal and private student loans](#) typically require repayment. Federal student loans let you start repayment six months after you leave school.¹ Conversely, private student loans may require you to begin repayment while you're still in school.

[Scholarships are free aid](#), so they aren't meant to be repaid. In some cases, [scholarships](#) require recipients to maintain a certain GPA while in school, be part of a specific demographic group, and/or meet other eligibility criteria.²

Eligibility Requirements and Selection Criteria

Each scholarship has its own eligibility requirements and selection criteria. Because of this, it's important to read through the requirements before submitting an application.

Some scholarships are awarded based on merit (i.e., grades and academics). These differ from grants, which are typically given out based on need. This isn't always the case for either type of [financial aid](#), as need-based scholarships also exist, while some grants factor in a student's GPA. It's up to each entity funding a scholarship to determine what they require from applicants.

Some federal student loans also require you to show financial need in order to qualify, such as [direct subsidized loans](#).³ But neither direct subsidized nor direct unsubsidized loans require a [credit check](#) or [co-signer](#), whereas many private student loans require one or both.¹

Private lenders have minimum [credit score](#) requirements borrowers must meet to qualify for a student loan. If you don't have sufficient [credit history](#) to borrow on your own, you might need a co-signer's help. Parents often serve as co-signers for their dependent students, if they have strong enough credit to qualify.

Application Process

For scholarships, the exact application process will vary among each business, organization, nonprofit, individual, or other group offering them. Most applications are available online, making applying for and tracking awards easier.

You can apply for federal student loans and all federal financial aid through the [Free Application for Federal Student Aid \(FAFSA\)](#).⁴ Any student can complete the FAFSA, regardless of income, and you'll be considered for federal scholarships, grants, student loans, and work-study programs.

To complete the form, you must create a FSA ID. If you're a dependent student, a parent will also need their own FSA ID to complete their portion of the FAFSA. Some scholarships also require a completed FAFSA for eligibility.

Private student lenders also often offer online applications, which makes it easy for borrowers to apply and receive results within minutes.

Funding Source

Depending on where you complete your application, your money could come from the same source or from several different sources.

You can get a scholarship from:

- Businesses and companies
- Nonprofits, foundations, and charities
- Employers and professional organizations
- Religious groups
- Schools (including the one you might attend)
- Federal, state, local, and municipal governments
- Individuals

The United States Department of Education funds federal student loans. Private lenders, including banks, credit unions, and online lenders, offer private student loans.

How You Can Use Your Funds

You can use scholarships and student loans to pay for most of your education-related costs, including tuition, fees, room and board, books, transportation, food, and similar expenses.

Some scholarships send money directly to your school, while others send checks to you directly. If you've used all your scholarship money to pay for school-related expenses and have some left over, you might be able to use that money however you please. But some scholarships place restrictions on how you can use the awarded funds. Read through your scholarship conditions carefully to determine whether there are any guidelines on how you can (and can't) use your money.

Both federal and private student loans let you use funds to pay for eligible school expenses.⁵

This is a broad category, since students have a wide range of costs. Aside from tuition, fees, supplies, books, and room and board, you can use your funds for many other expenses, including child care, off-campus housing,

expenses to cover professional licenses and certification, disability needs, and more.

There are some restrictions on student loan funds. For instance, you can't use them for debt repayment, illegal activities, vacations, and shopping that isn't a qualified education expense.

Impact on Financial Future

Since scholarships are free, they aren't intended to be repaid. Student loans, however, are debt products with the expectation that you'll repay them. Federal student loans have repayment terms ranging from 10 years to over 30 years, depending on the repayment plan.⁶ Private student loans may have shorter repayment terms and don't base repayment on your [discretionary income](#) like federal student loans do.

Monthly student loan payments could limit your ability to save for your future, whether that's for a big purchase, such as a car or home, or a long-term saving goal like expanding your family or retirement.

What Are Other Options if I Don't Get Enough Financial Aid for College?

You should try to get as much free money as possible to cover your college costs. If you have to borrow money, start with federal student loans. Your first choice should be direct subsidized loans, if you're eligible. Since the government covers the [interest](#) that accrues while you're in school, you'll pay less in the long run. If you have any funding gaps, move on to direct unsubsidized loans and parent [PLUS loans](#).⁷³ Private student loans should be a last resort if you still have funding gaps.

Do Scholarships and Student Loans Affect Financial Aid Eligibility in the Future?

The only impact scholarships have on your future financial aid is that [all of your scholarships added together](#) can't be greater than the total [cost of attendance \(COA\)](#) at your school.⁸ However, this is typically only for federally awarded scholarships. If you have private scholarships, you may not have to worry about any financial aid eligibility limitation.

Are There Any Tax Implications for Scholarships or Student Loans?

If you receive a scholarship and use it to pay for qualified educational expenses, it doesn't count as [taxable income](#). However, scholarship funds may be considered taxable income in certain circumstances, such as if you have excess funding or if the scholarship is more of a stipend.⁹ For student loans, you can take a [tax deduction](#) on the student loan interest paid throughout the year.¹⁰

The Bottom Line

Scholarships and student loans are two possible sources of student aid you can receive to fund a higher education. Scholarships are the ideal form of funding, as they don't have to be paid back, typically only requiring you to maintain a specific GPA and/or meet some other eligibility criteria.

However, many students won't be able to attend college on scholarships alone, which is where student loans come in. Whether federal or private, student loans generally have to be repaid, and private loans may require you or a co-signer to have a specific credit score or discretionary income.