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The ultimate guide to federal student loans



Written by Dori Zinn, Edited by Aylea Wilkins

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For prospective students, the long-term economic benefits of attending college have never been higher, but neither have the costs. Since 1980, the average college tuition and fees cost has [increased 130 percent](#). That amounts to an annual tuition bill at a private four-year college more than \$32,000 and more than \$9,000 a year for a public college.



Images

If you don't have that kind of cash available to pay for tuition each year, you're not alone. More than [43 million](#) students have federal student loans. These loans, provided by the U.S. Department of Education, can help you pay the tab for higher education costs. To access this assistance, you must complete the [Free Application for Federal Student Aid \(FAFSA\)](#). Then, any college you've been accepted to will let you know how much financial aid you can receive.

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Summary: Federal student loans

	Direct Subsidized	Direct Unsubsidized	Direct PLUS	Direct Consolidation
Maximum loan amount	Undergraduates: \$23,000 aggregate	<ul style="list-style-type: none"> Undergraduates: \$31,000 to \$57,500 aggregate Graduates: \$138,500 aggregate 	Up to the cost of attendance	N/A

Interest rate	Undergraduates: 6.53%	<ul style="list-style-type: none"> Undergraduates: 9.08% 6.53% Graduates: 8.08% 	Weighted average of consolidated loans
Origination fee	1.057%	1.057%	4.228% N/A

Types of federal student loans

Federal student loans are currently available under the [William D. Ford Federal Direct Loan Program](#). Within that program, you can choose from four main types of loans:

- Direct Subsidized Loan.** Undergraduates who can demonstrate [financial need](#) may qualify for subsidized loans. The U.S. Department of Education will not charge interest while you're in school (as long as you're enrolled at least half time), during the six-month grace period after you graduate and during any deferment periods.
- Direct Unsubsidized Loan.** These loans are for undergraduate and [graduate students](#), along with those pursuing a professional degree. There is no financial need requirement. You'll accrue interest while in school, during the grace period and during any deferment periods.
- Direct PLUS Loan.** There are two types of PLUS loans: grad PLUS loans and parent PLUS loans. Grad PLUS loans are available for professional students and graduate students who have maxed out their Direct Unsubsidized Loan limits. Parent PLUS loans are for parents of undergraduate students. Applicants can borrow up to the full cost of attendance, minus other financial aid.
- Direct Consolidation Loan.** If you have several types of federal student loans, you can combine all of them into one loan with one interest rate and one monthly payment using a [Direct Consolidation Loan](#).

Federal loan interest rates

U.S. Congress sets the federal student loan interest rates each year based on the 10-year Treasury note yield. [Interest rates](#) may vary from year to year, but they're fixed once you've received the loan funds. Interest rates on federal student loans for the 2023-24 school year are:

- Direct Subsidized Loan: 6.53 percent.
- Direct Unsubsidized Loan: 6.53 percent (undergraduate) or 8.08 percent (graduate).
- Direct PLUS Loan: 9.08 percent.

Borrowing limits for federal student loans

The amount you can borrow in federal student loans partly depends on whether you're an independent or dependent student, which is based on whether your parents financially support you. How much you can borrow is also based on your year in school.

If you're an undergrad student and your parents don't qualify for a parent PLUS loan, you may be able to borrow up to the independent undergraduate limits.

	Dependent undergraduate student	Independent undergraduate student	Graduate or professional degree student
Year 1	\$5,500 (up to \$3,500 may be subsidized)	\$9,500 (up to \$3,500 may be subsidized)	Up to full education costs
Year 2	\$6,500 (up to \$4,500 may be subsidized)	\$10,500 (up to \$4,500 may be subsidized)	Up to full education costs
Year 3 and beyond	\$7,500 (up to \$5,500 may be subsidized)	\$12,500 (up to \$5,500 may be subsidized)	Up to full education costs
Lifetime maximum limit	\$31,000 (up to \$23,000 may be subsidized)	\$57,500 (up to \$23,000 may be subsidized)	Up to full education costs

Pros and cons of federal student loans

If you're on the fence about federal student loans, weigh the pros and cons to see if it's the right move for you.

Pros

- **Easier approval.** Direct Subsidized and Direct Unsubsidized Loan borrowers won't have to go through a credit check during the application process. If you don't have a credit history, you'll still be able to qualify for federal loans.
- **Flexible repayment terms.** The standard repayment plan lasts 10 years, but you can also apply for one of several different repayment plans if the standard plan doesn't fit your budget. For instance, you may choose a repayment plan that is based on your income.
- **Loan forgiveness options.** There are a few different ways to access loan forgiveness programs with federal student loans. There are five different income-driven repayment plans that will forgive any balance remaining after a 20- or 25-year repayment period, and the Public Service Loan Forgiveness (PSLF) program discharges your loan after you make 120 on-time payments while working for a government agency or a nonprofit.
- **Hardship options.** With federal student loans, you can qualify for deferment or forbearance if you lose your job, have a health crisis or go back to college. There are also periods of administrative forbearance, like the period put in place due to the coronavirus pandemic.

Cons

- **Lower borrowing limits.** Federal student loans have low borrowing limits compared to private student loans. If you've maxed out your federal aid, you may need to find other ways to supplement your funding.
- **Origination fees.** All federal Direct Loans come with an origination fee, which is taken from the loan proceeds.
- **Not available for all schools.** Applicants can use federal Direct Loans to pay for education only at [accredited postsecondary institutions](#). If your school does not qualify, then you'll have to find another type of financial aid.
- **Credit check for certain loans.** The Department of Education does run a credit check for Direct PLUS Loan applicants. If you have an "[adverse credit history](#)," you'll need to either find a co-signer or prove to the Department of Education that your [poor credit](#) report is due to circumstances beyond your control.
- **Higher interest rates.** Graduate students, professional students and parents of undergrad students may apply for a Direct PLUS Loan. But borrowers with strong credit may get a [better interest rate on a private student loan](#).

How to apply for a federal student loan

Applying for a federal student loan is free, and it starts with [submitting the FAFSA](#). The application opens on Oct. 1 each year, and submission deadlines depend on your school and state. [The FAFSA](#) should be your first step when searching for financial aid for college.

Here's how to get started:

- 1. Fill out the FAFSA.** Applicants will need to complete and submit the [FAFSA form](#). If you complete the form online, your application will be processed within three to five business days. If you submit a paper application, it will take about seven to 10 days to be processed.
- 2. Receive your Student Aid Report (SAR).** After you submit the FAFSA, the Department of Education will send you an SAR, which explains your eligibility for federal student aid.
- 3. Read your offers.** The schools you list on the FAFSA will have access to your financial information. They'll use it to calculate your financial aid offer, which may include federal student loans, federal grants and work-study programs. These offers vary with each school.
- 4. Accept financial aid.** Contact your school to accept the financial aid. If it includes federal student loans, the school will tell you how to accept them.
- 5. Attend loan counseling.** Before you receive your loan funds, you'll need to complete [entrance counseling](#). This will explain how student loans work so you're not surprised after graduation.
- 6. Sign for the loan.** Read through and sign the master promissory note, which includes the terms of the loan.
- 7. Renew your application.** If you need more financial aid, you'll need to submit a [new FAFSA each school year](#).

The difference between Federal and private student loans

Federal loans	Private loans
Repaid after leaving school or graduation	Many require payment while in school
Fixed interest rate	May have variable interest rate
Subsidized loan options available for those who	Do not offer subsidized loan

qualify	options
No credit check required (except for PLUS loans)	Credit check required
No cosigner required	May require cosigner
Potential to qualify for Public Student Loan Forgiveness (PSLF)	No forgiveness options
Income driven repayment options	Repayment options vary by lender

Potential forgiveness of federal student loans

On Aug. 24, 2022, [President Biden announced](#) that most federal student loan borrowers would be eligible for one-time student loan forgiveness of up to \$20,000. The administration had said those who earned less than \$125,000 annually would qualify for forgiveness. In addition, Pell Grant recipients would also be eligible under the administration's proposed plan. Under these guidelines, an estimated 8 million borrowers were expected to receive the relief automatically.

However, the Supreme Court has since blocked the student debt relief program. The administration is seeking to have the court decision overturned. But for now, the future of the proposed relief remains unclear.

The bottom line

Federal student loans can provide significant assistance with the cost of college. There are also many benefits associated with federal loans when compared to private loans. In addition to not having to be repaid while you're still in school, federal loans offer repayment options tied to your income level and depending on your career path, the loan may even be eligible for forgiveness. But even with federal student loans, it's important to fully understand the amount of debt you'll be taking on and the overall cost of repayment, before signing on the dotted line.

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Written by

Dori Zinn

Contributor, Personal Finance



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Dori Zinn has been a personal finance journalist for more than a decade. Aside from her work for Bankrate, her bylines have appeared on CNET, Yahoo Finance, MSN Money, Wirecutter, Quartz, Inc. and more. She loves helping people learn about money, specializing in topics like investing, real estate, borrowing money and financial literacy.

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