Subsidized and Unsubsidized Student Loans – What's the Difference?

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The cost of college tuition, books, room and board (if applicable) add up quickly and can leave you anxious about your ability to pay for school. Even with scholarships and grants, you may still have trouble covering the entire cost, leading you to apply for student loans. Loans can help you afford the education you desire, but they also come with varying levels of interest, benefits, and drawbacks.

If you choose a subsidized or unsubsidized Federal Direct Loan from the U.S. Department of Education, you must fulfill specific criteria. The school you choose to attend must participate in the loan program. A Social Security Number is also required, and you must be a U.S. citizen or eligible non-citizen. You must have earned your high school diploma or equivalent, and if you have existing federal loans, your accounts must be in good standing. Male students between the ages of 18 and 25 must also register with the Selective Service. The Free Application for Federal Student Aid (FAFSA) is used for both subsidized and unsubsidized loans.

Subsidized student loans

If you are pursuing an undergraduate degree, you can apply for a subsidized loan. You will be required to prove your financial need, and will be limited in the amount you can borrow, but interest on a subsidized loan does not accrue while you are a student and for six months after you are done with school. It is also possible to apply for a loan deferment (up to three years). During the deferment period, you will not be responsible for interest payments.

Unsubsidized student loans

An unsubsidized student loan is available if you are planning to earn an undergraduate, graduate or professional degree. Unlike subsidized loans, your eligibility does not depend on your financial need, and limits on the amount you can borrow are higher.

With an unsubsidized student loan, the borrowing limit for the entire time you're enrolled is $31,000 for dependent undergraduate students. Higher limits are available for independent undergraduate students and for graduate students, who are automatically considered independent. These higher limits offer more financial assistance and may allow you to achieve a more advanced degree, but they come at a higher price in terms of interest.

For unsubsidized loans, interest begins to accrue as soon as the loan is disbursed, including while students are enrolled in school. Loan payments are not due until six months after you leave school, but interest will continue to build during this time.

Both subsidized and unsubsidized loans have pros and cons. Before you choose, evaluate both options carefully so that you can pursue your degree with a minimum of stress over how you will pay back the loan after graduation.