What you need to know about choosing a fixed-rate or variable-rate student loan…

Depending on the type of student loan you take out, you may be offered a choice between a fixed-rate or variable-rate loan.

The difference is that the rate on a variable-interest rate loan can change over the life of a loan, whereas a fixed rate will remain the same unless you elect to consolidate your loans.

Direct Student Loans from the Department of Education have fixed interest rates that do not take into account the credit risk posed by the borrower and therefore, do not require a co-signer.

You may also have the option to qualify for better rates from private educational lenders — particularly if you or your co-signer has good credit and earns a good income.

For variable-rate and fixed-rate loans offered by private educational lenders, interest rates will typically depend on the length, or term of the loan, and the perceived credit risk of the borrower and/or co-signer.

Pros and cons of fixed- vs. variable-rate loans

	Fixed interest rate	**Variable interest rate**
Interest rate	• The rate you start with is the rate you'll have throughout the term of the loan.	• The rate can periodically increase or decrease along with a base rate (such as LIBOR or the prime rate)
Monthly payment	• Your monthly payment will remain constant through the term of your loan (unless you choose an income-driven repayment plan).	• Your monthly payment can fluctuate depending on changes in the interest rate.
Pros	• Certainty of the same rate and monthly payment throughout the term of the loan.	• If the base rate does not rise, it could provide a lower overall repayment amount compared to a fixed-rate loan.
Cons	• Generally higher than variable-rate loans in the short term.	• Less predictability in terms of your monthly payment amount. • Possibility of your interest rate increasing in the long term (variable rates are often capped, but that cap is often high, at 15%-18%).