Student Debt Versus Mortgage Debt: Comparative Analysis

Loans serve as monetary assistance when someone is in need of money. A loan that helps you to make a productive move and lead you towards success in life is considered as “Good debt”. And other debts that are used for a short time necessity are considered as “Bad debts”. Mortgages and student loans are usually considered to be good-debt, whereas credit card debt, consumer debt, and auto loans are a few bad debts. Here we will be focusing more on the good debts. We take you through a quick overview of the comparison between a mortgage debt and a student debt.

What is a student loan?

A student loan is a financial aid borrowed from the federal government, an organization, or a financial institution as a way to help pay for your school. They are usually used to cover the cost of tuition fees, books and supplies, and living expenses.

What is a mortgage?

We can call Mortgage as a debt instrument, that is secured by the collateral of particular real estate property, that the borrower is bound to repay with a fixed number of payments. Mortgages are used by individuals and businesses when they make large real estate purchases without paying the complete price up front.

How are Interest-rates set?

For Student Loans: The Congress sets the interest rates of federal student loans. The federal interest rates are usually fixed. Private lenders set their own interest rates on the student loans that they provide. Private financial institutions offer both fixed and variable interest rates. The fixed interest rates stay the same for the whole term of the loan, whereas the variable interest rates change according to the changes in market conditions.

For Mortgages: The interest rates for mortgage debts are fluctuating. The private lenders change the rates continuously based on the changes in the market. The interest rates for a conventional 30-year fixed-rate mortgage alters with respect to the 10-year Treasury yield. The student loan interest rates are quite higher than the 30year fixed rate mortgage.

Are there any other options before these loans?

For any student, student loans are the last and final go of finding assistance to pay their college tuition and other related expenses. Before student loans, there are options like grants and scholarships. Scholarships are the financial support given to a student based on academic achievement or other criteria and not based on the financial need. Opting for student loans is advised only if you do not qualify for any grant and scholarship.

Mortgages don’t have many alternative options preceding them.

Factors to be focused while managing these loans

Refinancing is a major factor to be considered in managing loans. If you are struggling to make payments towards your loans due to high-interest rates, better refinance them through a different lender who can offer a lower interest rate. There are many private lenders and credit unions that offer refinancing for mortgage debts. Student loans can also be refinanced through private lenders and credit unions. But you must remember that when you are refinancing your current federal student loans through a private lender you may lose the benefits and privileges that you hold on that loan.

Managing loans when are bankrupt is really a hard task. Both mortgage and student loans allow you for loan discharge on bankruptcy for valid reasons.

Keeping track of the loans is very important in order to avoid getting into risks. Any loan provider expects the borrower to make on-time payments towards loans. You have to be careful in making payments at the right time. You may keep track of the loans and due dates by contacting your lender or servicer. Student loan servicers stay as the closest point of contact for the borrowers and help in solving their issues related to student loans.

Repayment is the most important factor to be managed when you are in a loan. Even though loans serve as financial assistance when you need them, they are still loans that need to be repaid. Make regular monthly payments towards the loans to reduce the burden on you. If you fail to make payments towards a mortgage you may end up losing the property that you used as collateral. In student loans, you may end up defaulting your student loan if you don’t make regular payments on time. The Student Loan borrower may get grace periods like deferment and forbearance during which loan repayment can be suspended. But in mortgages, there are not many benefits as such.

Borrowers with student loans can get their loans forgiven by committing to serve the public in a particular area for a certain time specified by the education departments.

Lenders providing mortgages and student loans offer different repayment plans for the borrowers so that they can choose the best that suits them.

Bottom Line

Mortgages are usually meant for those who can bring in collateral into their loans. There are risks of losing your collateral property when you cannot repay your mortgage debts. Whereas student loans are solely meant to support someone to continue their studies and achieve their goals. Though student loans are expensive when compared to a mortgage, it helps you to get your higher education through which you may be able to find a good job and inturn will be able to repay your debts over time. Best student loans may give you better benefits than mortgages. However, both of them fall into same circle of loans. You just need to select the one that fits your requirements. So choose wisely before you decide to take any loan.