

# Fixed rate or variable rate. How do you choose?

*It's good to have options, but how do you know which is right for you? You'll find that many lenders, including Wells Fargo, offer the choice of a fixed or variable interest rate on their private student loans.*

## What's the difference?

### Fixed rate

- Initial rate is generally higher than a variable rate loan
- Remains the same over the life of the loan, which means your monthly payments remain stable over time
- If interest rates fall after locking in a fixed rate, your monthly payments may be higher than with a variable rate

### Variable rate

- Initial rate is generally lower than a fixed rate loan
- May rise or fall as the Prime Rate adjusts over time, which means your payments may vary on a monthly basis
- If interest rates rise, your monthly payments may be higher than a fixed rate

## What works for you?

Choosing a fixed or variable interest rate depends on your own needs. Review your options, run the numbers (we've included an example for you on the back), and consider the following scenarios.

How would you feel if:

- You took a fixed interest rate loan and variable interest rates *went higher* than your rate?
- You took a variable interest rate loan and your rate *stayed lower* than the fixed interest rate you could have chosen?
- You took a fixed interest rate loan and variable interest rates *stayed lower* than your rate?
- You took a variable interest rate loan and your rate *went higher* than the fixed interest rate you could have chosen?

Any of these scenarios are possible, and thinking them through will help you determine which type of rate is right for you.

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## How will it affect my monthly payments?

Here's an example where Student A chose a fixed rate and Student B chose a variable rate. They both took out a \$10,000 loan, paid the interest that accrued while they were in school, and had a 10 year repayment term.

	<b>Student A</b> Fixed interest rate of 10.00% APR	<b>Student B</b> Variable interest rate starting at 6.00% APR (a Prime Rate of 5.00% plus a 1.00% margin)
<b>No change in interest rate throughout repayment</b>	Payments: \$132.15/mo Total interest: \$5,858.09	Payments: \$111.02/mo Total interest: \$3,322.46
<b>Prime Rate <i>increases</i> by 0.25% every two years of repayment</b>	Payments: \$132.15/mo Total interest: \$5,858.09	Year 1-2 payments (6.00%): \$111.02/mo Year 3-4 payments (6.25%): \$112.05/mo Year 5-6 payments (6.50%): \$112.85/mo Year 7-8 payments (6.75%): \$113.40/mo Year 9-10 payments (7.00%): \$113.69/mo Total interest: \$3,512.15
<b>Prime Rate <i>decreases</i> by 0.25% every two years of repayment</b>	Payments: \$132.15/mo Total interest: \$5,858.09	Year 1-2 payments (6.00%): \$111.02/mo Year 3-4 payments (5.75%): \$109.99/mo Year 5-6 payments (5.50%): \$109.21/mo Year 7-8 payments (5.25%): \$108.68/mo Year 9-10 payments (5.00%): \$108.40/mo Total interest: \$3,135.29
<b>Prime Rate <i>increases</i> by 1.00% every two years of repayment</b>	Payments: \$132.15/mo Total interest: \$5,858.09	Year 1-2 payments (6.00%): \$111.02/mo Year 3-4 payments (7.00%): \$115.18/mo Year 5-6 payments (8.00%): \$118.45/mo Year 7-8 payments (9.00%): \$120.74/mo Year 9-10 payments (10.00%): \$129.96/mo Total interest: \$4,096.40
<b>Prime Rate <i>decreases</i> by 1.00% every two years of repayment</b>	Payments: \$132.15/mo Total interest: \$5,858.09	Year 1-2 payments (6.00%): \$111.02/mo Year 3-4 payments (5.00%): \$106.95/mo Year 5-6 payments (4.00%): \$103.90/mo Year 7-8 payments (3.00%): \$101.85/mo Year 9-10 payments (2.00%): \$100.81/mo Total interest: \$2,588.81

Remember, this is just an example that is based on the Prime Rate changes we have seen in the past. There are points in time where the Prime Rate has increased higher than our examples, but the [average](#) for the past 15 years is 7.30%. The Prime Rate is subject to change at any time and can fluctuate differently than our example.