

## Understanding Gap Financing Options: PLUS Loan for Parents and Private Student Loans

Many families are considering financing their children's education with either Federal Parent PLUS Loans or private student loans. The comparison chart below will help you understand the features and benefits of each type of loan.

Interest rates and fees for private loans vary between lenders and are typically based on the credit of the individual borrower and cosigner. We recommend that you apply for one or more private loans and compare your options before deciding which type of loan is best for you. Remember, applying for a private student loan does not obligate you to accept it.

|                                       | PLUS LOAN FOR PARENTS <sup>1</sup>   | SCHOOL-CERTIFIED PRIVATE STUDENT LOAN <sup>2</sup>  |
|---------------------------------------|--|---|
| <b>Whose name is on the loan?</b>     | Parent   | Student and cosigner  |
| <b>Cosigner requirement</b>           | No. If parent has adverse credit history an endorser may be required.  | No, but if you're a student with little or no credit history, it may be difficult for you to qualify for a loan without a creditworthy cosigner. Having a cosigner can also help a borrower qualify and obtain a better rate.   |
| <b>Cosigner/parent release option</b> | No. The parent, and any endorser, is making a commitment to repay the loan for the life of the loan.         | Yes. Many lenders provide a cosigner release option where the student can apply to release the cosigner after he or she graduates, makes a specified number of on-time payments and meets underwriting requirements.  |
| <b>Interest rate</b>                  | 6.41% for Academic Year 2013-14 loans.<br>Note: AY 2014-15 rates will be announced on or after June 1, 2014. | Many lenders offer both variable and fixed interest rates. Rates range from 2.25% to 10.44% for variable and 4.50% to 12.99% for fixed. Rates are typically based on the borrower and cosigner's credit history so those with good credit may qualify for a lower rate. |
| <b>Origination/disbursement fees</b>  | 4.288% <sup>3</sup>  | Varies by lender — most offer 0%.   |
| <b>Borrower benefits</b>              | 0.25 percentage point interest rate reduction for automatic debit enrollment. <sup>4</sup>                   | Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender (e.g., graduation rewards).   |
| <b>Repayment period</b>               | 10–25 year   | Varies by lender; typically 5-15-year terms are offered.  |
| <b>Loan limits</b>                    | Up to 100% of the cost of attendance minus other financial aid received.                                     | Generally, up to 100% of the cost of attendance minus financial aid received. Lenders may impose limits based on various factors, and can have different loan limits for different loan programs.   |
| <b>Credit check required</b>          | Yes. Applicant or endorser cannot have an adverse credit history.  | Yes. Loan approval and pricing is generally based on creditworthiness.  |
| <b>Minimum enrollment status</b>      | At least half-time.  | Varies by lender. Some offer loans to borrowers who are attending school less than half time.   |

|   | PLUS LOAN FOR PARENTS  | SCHOOL-CERTIFIED PRIVATE STUDENT LOAN  |
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| <b>Application process</b>  | Online through the Department of Education.  | Online with lender.  |
| <b>Free Application for Federal Student Aid (FAFSA) required</b>      | Yes. In addition to the FAFSA, some states/colleges require additional forms or applications for aid.  | No. Families are not required to complete the FAFSA unless it is the policy of the school.   |
| <b>Minimum payment amount while the student is enrolled in school</b> | PLUS loan payments can be deferred while the student is in school and for 6 months after graduation (interest continues to accrue and is added to the loan's principal).                                   | Varies by lender. Many lenders allow private loan payments to be deferred while in school (interest accrues during this time). Many lenders offer options to make interest payments while in school. |
| <b>Death and disability loan forgiveness</b>                          | Yes. If the primary borrower or student beneficiary dies, or if the primary borrower becomes permanently and totally disabled, then the payments on the loan will be waived if certain conditions are met. | Varies by lender. Some lenders waive the remaining balance in the event of the primary borrower's death or permanent and total disability.   |
| <b>Ability to consolidate through the Department of Education</b>     | Yes. Parents can consolidate with other federal loans in their name (not the student's).   | No. Cannot be included with federal student loans.   |
| <b>Options for denied loans</b>                                       | If parent applies and is denied, the student is eligible for additional unsubsidized Stafford loans.   | Student could re-apply with a cosigner (or with a different cosigner if cosigner was denied), or apply with another private lender.  |
| <b>Repayment plans</b>  | PLUS loans are eligible for graduated and extended repayment options, federal consolidation, and some public service loan forgiveness options.   | Most lenders have programs available to assist troubled borrowers, but they are discretionary and not part of the loan agreement.  |
| <b>Interest tax deductible</b>  | The parent may be able to use the interest paid on the loan for a tax deduction, subject to IRS guidelines.  | The student may be able to use the interest paid on the loan for a tax deduction, subject to IRS guidelines. Restrictions apply to loans for less-than-half-time enrollment.                         |

<sup>1</sup> Federal student loan information was gathered on December 1, 2013 from <http://studentaid.ed.gov>; check this page for the most up-to-date information about federal student loans. Rates, fees, and availability of federal student loans are subject to change by the Federal Government.

<sup>2</sup> Interest rates, fees, terms, and borrower benefits based on a December 20, 2013 review of national school-certified private loan programs. Private student loans that have variable rates may go up or down based on the changes of an underlying interest rate index.

<sup>3</sup> This information was gathered on December 1, 2013 from <http://www.ifap.ed.gov/dpccletters/attachments/GEN1322Attachment.pdf>.

<sup>4</sup> This information was gathered on December 1, 2013 from <http://www.direct.ed.gov/inrepayment.html>.

EXPLORE FEDERAL LOANS AND COMPARE TO ENSURE YOU UNDERSTAND THE TERMS AND FEATURES. PRIVATE STUDENT LOANS THAT HAVE VARIABLE RATES CAN GO UP AFTER CONSUMMATION. FEDERAL STUDENT LOANS ARE REQUIRED BY LAW TO PROVIDE A RANGE OF FLEXIBLE REPAYMENT OPTIONS, INCLUDING, BUT NOT LIMITED TO, GRADUATED REPAYMENT AND EXTENDED REPAYMENT PLANS, AND LOAN FORGIVENESS AND DEFERMENT BENEFITS, WHICH OTHER STUDENT LOANS ARE NOT REQUIRED TO PROVIDE. FEDERAL LOANS GENERALLY HAVE ORIGINATION FEES, BUT ARE AVAILABLE TO STUDENTS REGARDLESS OF INCOME.