

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 ¹	SCHOOL-CERTIFIED PRIVATE STUDENT LOAN ²
Whose name is on the loan?	Parent	Student and cosigner
Cosigner requirement	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.
Cosigner/parent release option	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.
Interest rate	6.41% for Academic Year 2013-14 loans.	Many lenders offer both variable and fixed rate options. Interest rates range from 2.25% – 12.99% and are typically based on the borrower and cosigner's credit history so those with good credit may qualify for a lower rate.
Origination/disbursement fees	4.204% ³	Varies by lender — most offer 0%.
Borrower benefits	0.25% percentage point interest rate reduction for automatic debit enrollment.	Most lenders offer a 0.25% percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender (e.g., graduation rewards).
Repayment period	10 – 25 years ⁴	Varies by lender; typically 5-15-year terms are offered.
Minimum loan requirement	\$100 per semester	Varies by lender — Range: \$500 to \$1500 per loan.
Loan limits	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.
Credit check required	Yes. Parent and student must not be in default on a federal loan or 90 days or more delinquent on any debt.	Yes. Loan approval and pricing is generally based on creditworthiness.
Minimum enrollment status	At least half time.	Varies by lender. Some offer loans to borrowers who are attending school less than half time.

This information is provided by Sallie Mae® for your reference.

	PLUS LOAN FOR PARENTS	SCHOOL-CERTIFIED PRIVATE STUDENT LOAN
Application process	Online through the Department of Education.	Online with lender.
Free Application for Federal Student Aid (FAFSA) required	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.
Minimum payment amount while the student is enrolled in school	PLUS loan payments can be deferred while the student is in school (interest continues to accrue and is added to the loan's principal after graduation).	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.
Death and disability loan forgiveness	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.
Ability to consolidate through the Department of Education	Yes. Parents can consolidate with other federal loans in their name (not the student's).	No. Cannot be included with federal student loans.
Options for denied loans	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.
Repayment plans	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.
Interest tax deductible	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.

¹ This information was gathered on August 13, 2013, from <http://direct.ed.gov/calc.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 and do not have many of the repayment alternatives, like Graduated Repayment, Extended Repayment, and certain types of deferments that are available with federal loans. Federal loans generally have origination fees.

² Interest rates, fees, terms, and borrower benefits based on a July 24, 2013 review of national school-certified private loan programs.

³ This information was gathered on August 13, 2013 from <http://studentaid.ed.gov/about/announcements/sequestration>.

⁴ This information was gathered on August 13, 2013 from <http://www.direct.ed.gov/RepayCalc/dlindex2.html>. A repayment period of up to 25 years may be available to borrowers who meet certain conditions, including having borrowed more than \$30,000 in loans through the Direct Lending program. Otherwise, the standard repayment period is 10 years.

RATES, FEES AND AVAILABILITY OF FEDERAL LOAN PRODUCTS ARE SUBJECT TO CHANGE BY THE FEDERAL GOVERNMENT. CHECK StudentAid.ed.gov FOR THE MOST UP-TO-DATE INFORMATION ABOUT FEDERAL LOAN PRODUCTS.