

# Understanding gap financing options

## The Federal Direct PLUS Loan for Parents, private student loans, and private parent loans

Many families consider financing their undergraduate student's education with either a Federal Direct PLUS Loan for Parents or a private education loan. This comparison chart 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 generally based on the credit of the individual borrower and cosigner; however, other factors may also be considered. We recommend that you research private loans and compare your options before deciding which type of loan is best for you.

|   | Federal Direct PLUS<br>Loan for Parents <sup>1</sup>  | School-certified<br>private student loan <sup>2</sup>   | Private parent loan <sup>2</sup>  |
|---|---|---|---|
| Primary<br>borrower   | Parent  | Student   | Parent or other eligible non-student individual; however, other factors may also be considered  |
| Credit check<br>required  | Yes, a parent with an adverse credit history may obtain an endorser or meet additional requirements to qualify.   | Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.  | Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.  |
| Cosigner<br>requirement   | No, but a parent with adverse credit history may obtain an endorser.  | No, but a student with little or no credit history may have a better chance of approval by applying with a creditworthy cosigner.   | No, but if the primary borrower is not eligible on their own, some lenders may offer a cosigner option.   |
| Cosigner<br>release option  | This loan does not require a cosigner.  | Many lenders provide a cosigner release option where the student can apply to release the cosigner after they graduate, make a specified number of on-time payments, and meet underwriting requirements.  | Varies by lender; check for availability  |
| Interest<br>rate  | For loans first disbursed on or after July 1, 2019 and before July 1, 2020, the interest rate is fixed at 7.08%.  | Many lenders offer both variable and fixed interest rates. Interest rates for undergraduate students start from 3.50% to 12.61% for variable and range from 4.30% to 12.49% for fixed. Although lenders may consider multiple factors, rates are generally based on the borrower's and cosigner's creditworthiness, so those with good credit may qualify for a lower rate. | Most lenders offer a fixed interest rate. Fixed interest rates range from 5.75% to 12.99%. Some lenders may also offer variable rates. Variable interest rates start from 5.41% to 12.74%. Rates are generally based on the applicant's creditworthiness; other factors such as income and repayment term may also be considered. |
| Origination/<br>disbursement<br>fees  | 4.248% for loans first disbursed 10/1/18 through 9/30/19, and 4.236% for loans first disbursed 10/1/19 through 9/30/20  | Varies by lender; most offer 0%   | Varies by lender; most offer 0%   |
| Minimum<br>payment<br>amount while<br>the student<br>is enrolled in<br>school | Loans will automatically be placed in principal and interest repayment. The borrower can request to defer PLUS loan payments while the student is in school and for six months after graduation, leaving school, or dropping below half-time enrollment (interest continues to accrue during this time and unpaid interest is added to the loan's principal amount when the deferment period ends). | Varies by lender. Many lenders allow private loan payments to be deferred while in school (interest accrues during this time and unpaid interest is added to the loan's principal amount when the deferment period ends). Many lenders offer options to make interest payments during the in-school period.   | Varies by lender. Some lenders allow interest payments while in school. Others may offer or require immediate principal and interest repayment.   |
| Repayment<br>term   | 10 – 25 years of principal and interest payments  | Varies by lender; typically terms of 5 – 20 years of principal and interest payments are offered.   | Varies by lender; typically terms of 5 – 15 years of principal and interest payments are offered.   |

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|--|--|---|---|
| Payment flexibility  | PLUS loans are eligible for multiple repayment plans including standard, graduated, and extended repayment options, federal consolidation, and some public service loan forgiveness options. See studentaid.ed.gov for more information. | Most lenders will work directly with the borrower to assess repayment options. Some lenders offer graduated repayment options.  | Most lenders will work directly with the borrower to assess repayment options.  |
| Responsibility to pay                                      | Parent and endorser (if applicable)  | Student and cosigner (if applicable)  | Parent or other creditworthy adult  |
| Loan limits  | Up to 100% of the school-certified cost of attendance minus other financial aid received   | Generally, up to 100% of the school-certified cost of attendance minus other financial aid received. Lenders can have different loan limits for different loan programs and may base the limits on various factors. | Varies by lender, may or may not require school-certification. Some lenders may have minimum and maximum loan amounts and may base the limits on various factors. |
| Minimum enrollment status                                  | At least half time   | Varies by lender; some offer loans to students who are attending school less than half-time.  | Varies by lender; some offer loans to borrowers who have students who are attending school less than half-time.   |
| Application process  | Online with the Department of Education through the FAFSA process, but some schools have different application processes.  | Online with lender; there may be other potential application options, e.g., applying over the phone.  | Online with lender; there may be other potential application options, e.g., applying over the phone.  |
| Free Application for Federal Student Aid (FAFSA) required  | Yes.   | No. Families are not required to complete the FAFSA unless it is the policy of the school.  | No. Families are not required to complete the FAFSA unless it is the policy of the school.  |
| 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.  | Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender.                            |
| Death and disability loan forgiveness                      | Yes. If the parent dies or becomes totally and permanently disabled or if the student beneficiary dies and certain conditions are met, then the loan will be discharged.   | Varies by lender. Some lenders waive the remaining balance in the event of the primary borrower's death or permanent and total disability.  | Varies by lender. Some lenders waive the remaining balance in the event of the student'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  | No  |
| Options for denied loans                                   | If parent is unable to obtain the loan, the student may be eligible for additional unsubsidized loans.   | Student can apply with a different cosigner if the cosigner is denied.  | Varies by lender; parent or other creditworthy individual may be able to apply with a cosigner.   |
| Tax deduction for interest paid <sup>3</sup>               | The interest paid on the loan may be deductible subject to IRS guidelines.   | The interest paid on the loan may be deductible subject to IRS guidelines.  | The interest paid on the loan may be deductible subject to IRS guidelines.  |

This information is provided by Sallie Mae for your reference.

<sup>1</sup> Federal student loan rate information is based on a May 23, 2019 Electronic Announcement from Federal Student Aid, an office of the U.S. department of Education. Federal student loan fee information is based on a May 30, 2019 Electronic announcement from Federal Student Aid, an office of the U.S. Department of Education. Other federal student loan information was gathered on August 31, 2019 from studentaid.ed.gov.

<sup>2</sup> Private loan information is based on an August 31, 2019 review of national private loan programs offered by Sallie Mae and its publicly-traded competitors. Variable rates may increase over the life of the loan.

<sup>3</sup> Sallie Mae does not provide, and these materials are not meant to convey, financial, tax, or legal advice. Consult your own attorney or tax advisor about your specific circumstances. Explore federal loans and compare to ensure you understand the terms and features. Private loans that have variable rates may increase over the life of the loan. Federal student loans are required by law to provide a range of flexible repayment options, including, but not limited to, Income-Based Repayment and Income-Contingent 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.

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