

FEDERAL PLUS LOANS vs. PRIVATE STUDENT LOANS vs. PRIVATE PARENT LOANS

Summary:

Both Federal PLUS Loans and private loans can help pay for college when other student aid isn't enough to cover educational expenses. The loans offer different features and benefits. Parents should carefully review the differences before borrowing any type of loan.

Both Federal PLUS Loans and private loans can help cover the difference between the total cost of attendance (COA) of your school and the financial aid you receive. Both types of loans can be used to pay for educational expenses such as:

- Tuition and fees
 - Room and board
 - Books
 - Supplies
 - Equipment
 - Transportation
 - Miscellaneous/personal expenses
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Differences between Federal PLUS and Private Loans:

There are three main differences:

1. **Lender:** PLUS Loans are federal student loans. The federal government is the lender. Private student loans are offered by private financial institutions, such as banks and credit unions, states, as well as colleges and universities.
2. **Primary Borrower:** The parent is the primary borrower on a Parent PLUS Loan and the student is the primary borrower on a Graduate PLUS Loan. For private student loan, the student is the primary borrower; the parent may be a cosigner on the student's private student loan. The borrower of the private parent loan can be anyone willing to borrow a loan on the student's behalf; wishing to gift the cost of education to the student.
3. **Interest Rate:** PLUS Loans have fixed interest rates, currently 6.31% for the 2016-2017 academic year. Private student loan interest rates are based on borrower credit and come in fixed and variable interest rate options, depending on the lender.

Families should always consider scholarships, grants, and federal student loans, like Direct Subsidized and Unsubsidized Loans and Perkins Loans, before applying for private student loans.

Please see the side-by-side comparison chart on the next page:

	Parent & Graduate PLUS Loan	Private Student Loan	Private Parent Loan
Primary Borrower	<i>Parent PLUS</i> : Parent of a dependent undergraduate student <i>Graduate PLUS</i> : student seeking their Master's/Graduate/Professional degree	Student	Parent or anyone else wishing to gift education to the student and borrow a loan on their behalf. i.e. grandparent, aunt/uncle, friend, etc.
Cosigner Required	Only if borrower has an adverse credit history	Depends on borrower and cosigner credit	Depends on borrower and cosigner credit
Credit Criteria	Borrower may not have adverse credit If they do they may have the option to add a cosigner/endorser	Credit scores Debt-to-income ratios No adverse credit history (borrower may have the option to add a cosigner)	Credit scores Debt-to-income ratios No adverse credit history (borrower may have the option to add a cosigner)
Impact of Loan Denial	Increased Direct Unsubsidized Loan limits	✗	✗
Requires School Certification	✓	✓	✓
FAFSA Required	✓	✗	✗
Lender	Federal government	Private lenders and financial institutions	Private lenders and financial institutions
Interest Rate Type	Fixed	Fixed and variable options	Fixed and variable options
Interest Rate	6.31% (2016-2017 academic year)	Depends on borrower and cosigner credit	Depends on borrower and cosigner credit
Interest Rate Reduction for Automatic Payments	0.25%	Varies by lender	Varies by lender
Deductible Interest	✓	✓	✓
Subsidized Interest	✗	✗	✗
Loan Fees	4.272% for loans first disbursed on or after October 1, 2015 and before October 1, 2016	Varies by lender Typically 0% to 5%	Varies by lender Typically 0% to 5%
Prepayment Penalties	✗	✗	✗
Interest Capitalization	Once at repayment	Monthly, quarterly, annually, or once at repayment	Monthly, quarterly, annually, or once at repayment
Annual Loan Limits	Cost of Attendance (COA) minus other student aid	Cost of Attendance (COA) minus other student aid Some degrees/majors may have lower limits	Cost of Attendance (COA) minus other student aid Some degrees/majors may have lower limits
Cumulative Loan Limits	✗	Varies by lender May vary by degree/major	Varies by lender May vary by degree/major
Funds Disbursed to the School	✓	✓	Varies by lender
In-School and Grace Period Deferment Options	Immediate repayment, of full principal and interest accrued. Borrower can request to defer payments. Full Deferment	Immediate repayment Interest-only payments Fixed in-school payments Full deferment	Immediate repayment Interest-only payments Fixed in-school payments Full deferment
Forbearance Options	3-year limit (1-year increments)	Varies by lender	Varies by lender
Repayment Term	Varies by repayment plan and loan balance 10 to 25 years	Varies by lender 5 to 25 years	Varies by lender 5 to 25 years
Repayment Plans	Standard, Extended, Graduated, Pay As You Earn, Income Based, Income Contingent, Income Sensitive	Varies by lender	Varies by lender
Death Discharge	✓ (Student or Parent)	Varies by lender	Varies by lender
Disability Discharge	✓ Parent PLUS Loan (Parent only) Graduate PLUS Loan (student only)	Varies by lender	Varies by lender
Public Service Loan Forgiveness	✓ (Direct PLUS Loans only)	✗	✗
Can Be Consolidated?	✓ (Direct Consolidation Loan does not cut interest rate)	✓ (Interest rate based on current credit)	✓ (Interest rate based on current credit)

When Repayment Begins:

Federal PLUS Loans

PLUS Loan borrowers can start making payments right away, or choose between two repayment deferment options.

- **Immediate Repayment:** Full payments of principal and interest begin within 60 days after full disbursement of the loan.
- **Deferment Options:**
 1. Defer principal and interest payments until the student graduates or drops below half-time enrollment.
 2. Defer principal and interest payments until **6 months after** the student graduates or drops below half-time enrollment.

NOTE: Interest continues to add up during deferment, increasing the amount of the loan.

Private Student & Parent Loans

Private student loan deferment options vary by lender. Here are some common options:

- **Immediate Repayment:** Full payments of principal and interest begin within 30-60 days after disbursement of the loan.
- **Interest-Only Payments:** Borrowers must make payments of at least the new interest that accrues while the student is enrolled at least half-time and during the 6-month grace period. Then, full payments of principal and interest begin.
- **Fixed In-School Payments:** Borrowers make fixed monthly payments of \$25 per loan per month during the in-school and grace periods. Then, full payments of principal and interest begin. Any interest over the \$25 will continue to add up, increasing the loan balance.
- **Full Deferment:** Borrowers do not make any payments during the in-school and grace periods. Monthly payments of principal and interest begin 6 months after the student graduates or drops below half-time enrollment. Interest continues to add up, increasing the loan balance.

NOTE: Some private student loan lenders require immediate repayment. Other lenders let the borrower choose, but may offer interest rate discounts for making payments while in school.

Important Things to Consider When Comparing Loans:

For both the parent PLUS Loan and a private student loan that the parent cosigns, the parent is ultimately responsible for the loan. It doesn't matter if the parent is the primary borrower (Parent PLUS Loan) or a cosigner (private student loan). A cosigner is a co-borrower, with equal responsibility to repay the debt. Both types of loans will appear on the parent's credit history, which could affect eligibility for other types of debt, such as credit cards, auto loans, and home loans (including home loan refinancing). NOTE: The student borrowing a Graduate PLUS Loan is the borrower and responsible for repayment.

For the Private Parent loan, whoever is the borrower is the responsible party when repaying the loan.

Even though PLUS Loans are federal loans, they don't come with all of the same advantages of other federal loans. *PLUS Loans are not eligible for:*

- Income-contingent repayment (ICR), unless consolidated into a Direct Consolidation Loan
- Income-based repayment (IBR)
- Pay-as-you-earn repayment (PAYE)
- Revised pay-as-you-earn repayment (REPAYE)
- Public Service Loan Forgiveness, unless consolidated into a Direct Consolidation Loan

Recommendations:

1. File the FAFSA every year to maintain eligibility for student aid.
2. Dependent students should take out Direct Subsidized Loans (if eligible), Direct Unsubsidized Loans, and Perkins Loans before parents consider taking out a Parent PLUS Loan or private student loan. Independent Graduate students seeking a Master's Degree should take out Direct Unsubsidized Loans before considering a Graduate PLUS Loan or private student loan.
3. Borrowers should compare the costs and benefits of PLUS Loans and private student loans. Borrowers with excellent credit may qualify for private student loan interest rates that are lower than the current PLUS Loan rate.
4. If a parent of a dependent undergraduate student is denied for a PLUS Loan due to an adverse credit history, the student will be eligible for additional Direct Unsubsidized Loan, or the parent can find a creditworthy cosigner. If an independent, graduate student is denied the Graduate PLUS Loan, they do not qualify for additional student loans, but may choose to appeal the decision or add an endorser through www.studentloans.gov