

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. Applying for a private student loan does not obligate you to accept it.

	PLUS LOAN FOR PARENTS ¹	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 having a cosigner can help the student qualify and obtain a better rate. Any creditworthy individual willing to assist the student may cosign.
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 and makes a specified number of on-time payments.
Interest rate	Fixed rate of 7.9%	Many lenders offer both variable and fixed rate options. Interest rates range from 2.25% – 13.99%.
Origination/disbursement fees	4%	Varies by lender — 0% to 5%
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 ³	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.

	PLUS LOAN FOR PARENTS	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	Yes. The parent may be able to use the interest paid on the loan for a tax deduction, subject to IRS guidelines.	Yes. 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 December 26, 2012, from <http://studentaid.ed.gov/types/loans/plus>.

² Interest rates, fees, terms, and borrower benefits based on a December 18, 2012 review of national private loan programs.

³ This information was gathered on December 26, 2012 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.