

Federal Direct PLUS Loans for Parents



Many families find that their educational expenses exceed the aid in their child's financial aid package. One of the best options for addressing this gap is a Federal Direct PLUS Loan for parents. With high approval rates, low fixed interest rates and the ability to defer repayment, PLUS Loans provide benefits not available through private education loan programs. If you decide to borrow a PLUS Loan, contact the financial aid office at your child's college or university to start the application process.

Benefits

PLUS Loans provide a financing option for covering unmet financial need after other sources of aid have been exhausted. Students whose parents take responsibility for financing a portion of their college education are better prepared for loan repayment upon graduation and are less likely to be overwhelmed by too much student loan debt.

- The application process is easy. Contact the financial aid office at your school to discuss the process.
- Eligibility is not determined by income or assets.
- There are no income or collateral requirements.
- Eligible applicants may borrow up to their child's full cost of education less other financial aid the student receives.
- Parent PLUS Loans have an interest rate that is tied to the 10-year Treasury notes and are capped at 10.5%. The interest rate for the 2015-2016 school year is fixed at 6.84%
- Because Parent PLUS Loans are federally insured, loan forgiveness is available in the event that the parent borrower becomes totally and permanently disabled, or in the event of the death of either the parent borrower or student.
- Flexible repayment options are available.
- Paid interest may be tax deductible.

Eligibility

If you are the parent of a dependent, undergraduate student who is attending an eligible college or university at least half time, you may apply for a PLUS Loan if you meet the following eligibility criteria:

- You are the student's biological or adoptive mother or father or a stepparent married to the student's custodial parent.
- You are a U.S. citizen, permanent resident or other eligible non-citizen.
- You are not in default on any federal student loans.

Application Process

You must complete a Master Promissory Note (MPN) to apply, which is often available online. The college will collect basic information to process your loan, including the amount you want to borrow. If you are borrowing Parent PLUS Loans for more than one student, you'll need to complete a separate MPN for each one. You should contact your financial aid office for details on how to apply.

Credit Check

Federal law requires a credit check to determine whether or not an applicant has adverse credit. A lack of credit history is not considered adverse for these purposes. An applicant will generally be unable to obtain a Parent PLUS Loan if he or she:

- Is 90 days or more delinquent on repayment of any debt.
- Has defaulted on any debt.
- Has been subject to bankruptcy, foreclosure, repossession, tax lien, wage garnishment or write off of a federal aid debt during the 5 years preceding the date of the credit report.

*Subject to change. The U.S. Department of Education plans to publish an updated definition of adverse credit on or before November 1, 2014.

What happens if you're denied?

If you are denied a PLUS Loan, you have four options:

- Reapply using an eligible cosigner/endorser.
- Allow your student to borrow additional unsubsidized Stafford Loan funds now available to the student because of your PLUS Loan denial.
- Document, to the satisfaction of the U.S. Department of Education, that the adverse credit decision is incorrect or has been corrected.
- Appeal the denial based on documented extenuating circumstances.

Contact your financial aid office to discuss these options.

Iowa College Student Aid Commission

430 E. Grand Fl 3 • Des Moines IA 50309-1920

Phone: 877-272-4456 • Fax: 515-725-3401

Email: info@iowacollegeaid.gov • Website: www.iowacollegeaid.gov

Interest Rate

Parent PLUS Loans have an interest rate that is tied to the 10-year Treasury note. Interest rates will never exceed 10.5% and are fixed at 6.84 % for loans first disbursed between July 1, 2015 and June 30, 2016.

Student Loan Interest

Parent PLUS Loan borrowers may be eligible to deduct some or all of the interest that they pay each year. Consult IRS publication 970 at www.irs.gov or check with your tax preparer for more information about higher education tax benefits and to determine your eligibility.

Repayment

A parent borrower may request deferment of repayment while the student for whom the loan was borrowed is in school at least half time and for six months thereafter. If deferment is not requested, the first payment is due within 60 days after the Parent PLUS Loan is fully disbursed. The minimum payment amount is \$50 per month and several repayment options are available. Contact your Direct Loan Servicer for more information.

Loan Limit

Parent PLUS Loans do not have annual loan limits. Parents may borrow up to their child's full cost of attendance, less other financial aid the student receives. Be careful to not borrow more than the student really needs.

Fees

An origination fee of 4.272% is charged for loans dispersed between October 1, 2015 and September 30, 2016. This fee is deducted proportionately each time a disbursement is made.

PLUS vs. Private Education Loans

Private loans are a form of consumer debt just like car and home mortgage loans. They differ by lender and may have a range of loan terms based on the applicant's creditworthiness. Private loans often have a more detailed application process, more stringent eligibility criteria, limited repayment options and variable interest rates with high interest rate caps. Interest rates for many private education loans change frequently as determined by the volatility of indices such as Prime or LIBOR¹. Terms for Parent PLUS Loans are set by the federal government and are the same for all applicants. The chart below outlines some of the differences between the two loan programs.

Federal Parent PLUS Loan

Private Education Loans

Fees	4.272% origination fee.	Fees vary. Some offer zero fees but have higher interest rates, while others have fees based on your credit history, ranging from 1% to 10%.
Interest Rate	Parent PLUS Loans have an interest rate that is tied to the 10-year Treasury note. Interest rates will never exceed 10.5% and are fixed at 6.84 % for loans first disbursed between July 1, 2015 and June 30, 2016.	Most interest rates are variable rates that are adjusted monthly, quarterly or annually. Interest rates may vary based on your credit history. They are typically based on the Prime rate or LIBOR ¹ plus add-on points with caps which, when combined, may exceed 20%.
Minimum Loan Amount	No federal minimum.	Minimum amounts vary based on the lender's policy.
Repayment Term	10 years under a standard repayment schedule. Other repayment schedules include graduated and extended (up to 25 years).	Repayment terms vary from 4 to 25 years based on the program and loan amount borrowed. Many offer a standard or graduated repayment schedule.
Deferment, Forbearance and Repayment Postponement	Deferments are federally-guaranteed entitlements for qualified parent borrowers who are in school at least half time and for six months thereafter, unemployed, experiencing economic hardship, participating in a graduate fellowship or rehabilitation training program, or are subject to military mobilization ² . A parent may request deferment of repayment while the student for whom the Parent PLUS Loan was borrowed is in school at least half time and for six months thereafter. In most cases, forbearance is granted at the Direct Loan Servicer's discretion. There are exceptions for certain qualified borrowers (e.g. medical and dental interns and residents).	Many programs allow payments to be postponed while the student is enrolled at least half time (some programs allow postponement for less than half-time enrollment.) However, some private loan options require payments be made while the student is enrolled. Private loan providers are not required to offer repayment postponement or assistance.
Loan Discharge and Forgiveness	Parent PLUS Loans may be discharged by the federal government under certain circumstances such as total and permanent disability of the parent borrower, or death of the parent borrower or student for whom the Parent PLUS Loan was borrowed.	Most private loan lenders do not discharge loan balances for any reason. If the borrower dies, some lenders will pursue the borrower's estate to satisfy the debt. A cosigner, if applicable, may be responsible for the repayment of the loan obligation in the event of the borrower's death.
Federal Consolidation	Parent PLUS Loans can be consolidated with the parent borrower's (not the student's) other federal student loans.	Private loans cannot be included in a federal consolidation loan. However, private loan balances may affect the maximum repayment period allowed on a federal consolidation loan.
Cosigner Required	No. However, a parent borrower may obtain a credit-worthy cosigner if he or she is denied a Parent PLUS Loan because of adverse credit.	Many private loan lenders require a cosigner when borrowers don't meet credit requirements. A cosigner may also help the borrower qualify for better loan terms.
Credit Check	A minimal credit check is required. Contact the financial aid office to initiate an online credit check.	A comprehensive credit check is required. In many cases, supporting documentation must be submitted.

Private education loan information printed in this document is believed to be correct as of July 2014. It is intended for use as an approximate guide for comparison purposes only. To ensure fully informed borrowing, you should refer directly to each lender's loan application and promissory note for exact information regarding loan terms.

¹The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market.

²Not all U.S. military personnel may qualify.

