

# Parent Loan Pointers

Using Parent PLUS loans



**When college costs exceed family resources plus financial aid, families can turn to PLUS loans to fill this funding gap. Parents of dependent undergraduate students attending an eligible college, university or trade school may take out a PLUS loan to fund their child's entire cost of attendance, minus any other financial aid. Parents may qualify for a PLUS loan regardless of their income or financial assets.**

**PLUS loans may be used to pay authorized education expenses, including tuition, fees, room and board, supplies, and equipment — often including personal computers — as well as transportation and commuting costs.**

## Advantages of PLUS loans

### No set loan limits

Parents of dependent undergraduates can borrow amounts up to the student's total cost of attendance, less any other financial aid.

### Affordable interest rates

New PLUS loan interest rates through the Federal Direct Loan Program are fixed at 7.9 percent. PLUS borrowers will be charged 4 percent of the loan amount in an up-front origination fee. The origination fee is used to offset a portion of the taxpayer costs of administering the federal student loan program.

### Flexible repayment options

PLUS borrowers have several repayment options. Standard terms are equal monthly installments of at least \$50 per month over a period of up to 10 years. You also may choose graduated repayment, under which the monthly installment gradually rises over the repayment period. PLUS borrowers with more than \$30,000 in debt in either the Federal Family Education Loan Program or the Direct Loan Program may qualify for an extended repayment term of up to 25 years. In addition, PLUS loans may be bundled into a Direct Consolidation loan, allowing a borrower with multiple loans to make a single monthly payment, and in some cases, permitting reduced monthly loan payments by extending the repayment period up to 30 years.

### Tax benefits

Interest paid on a PLUS loan may qualify for a federal income tax deduction. The maximum education loan interest deduction is \$2,500, and income limits and other conditions apply. See Internal Revenue Service Publication 970, "Tax Benefits for Higher Education."



## PLUS loan considerations

Parent PLUS loan applicants should ask the following questions:

### **Have I exhausted other sources of financial aid?**

Before applying for a PLUS loan, parents should research all free forms of financial aid, especially grants and scholarships. If you must borrow to meet college costs, consider Stafford loans before taking out PLUS loans. See the “Alternatives to PLUS loans” section for details. To ensure the optimum financial aid package, families of college-bound students should complete and file the Free Application for Federal Student Aid. Submission of the FAFSA is required to borrow a parent PLUS loan.

The financial aid office, local library and Internet scholarship search services are good sources of information about grants and scholarships. Campus financial aid staff also can help parents determine how much they should borrow and answer questions about the loan application process.

### **What if I don't pass the credit check?**

To qualify for a PLUS loan, parents must pass a credit evaluation. Unlike credit checks for other types of borrowing, the PLUS credit check merely determines whether the borrower has an “adverse credit history.” Indications include being 90 days or more past due on the repayment of a debt, having been in default or foreclosure on a loan, or having had a bankruptcy discharge on any debt or a write-off of a federal education debt during the past five years. If you fail the PLUS credit check, you have the following options:

- ◆ You may obtain a PLUS loan if a credit-eligible friend or family member agrees to endorse the loan application and assume the debt if you fail to repay the loan.
- ◆ You may qualify for a PLUS loan if you can demonstrate extenuating circumstances, such as updated credit information showing that you have brought your accounts up to date or have made arrangements to repay your debts.
- ◆ If you are denied a PLUS loan because of adverse credit, and you don't qualify for a PLUS loan through alternative means, your dependent undergraduate student qualifies to borrow additional amounts in unsubsidized Stafford loans.

### **When do my PLUS loan payments begin, and when does interest start accruing on my loan?**

The first PLUS loan payment generally is due 60 days after the loan is fully disbursed, but you may qualify to defer loan payments while you or your dependent undergraduate student are enrolled at least half time and for six months following that enrollment. See the section on “Deferment, forbearance and cancellation” for more information. Interest begins accumulating on PLUS loans as soon as the loans are disbursed.

### **Parent or child, who pays?**

Parent PLUS loan borrowers sometimes establish arrangements with their children to repay their PLUS loan. If the child fails to make the loan payments, however, the parent PLUS borrower is legally obligated to repay the debt.

## Alternatives to PLUS loans

### **Stafford loans**

These federal student loans usually are the least expensive loan option. Depending on their year in college, dependent undergraduates may borrow from \$5,500 to \$7,500 a year to finance their studies. Stafford loans carry fixed interest rates of 6.8 percent. Repayment does not begin until six months after the student leaves school or drops below half-time enrollment. Depending on a family's eligibility for financial aid, the student may qualify for a subsidized Stafford loan, on which the federal government pays the interest while the student attends college and during periods of authorized deferment. Unsubsidized Stafford loans are available without regard to financial need, but there is no interest subsidy. Interest may qualify for the federal education loan interest tax deduction.



### **Private, institutional and state education loans**

Many lenders, a number of colleges and universities, and certain states offer education loan programs to supplement federal education loans. Interest rates, fees and repayment terms vary widely. Parents should consult with campus financial aid staff for more information. Interest on these loans may qualify for the federal education loan interest deduction.

### **Home equity loans**

Parents who own their homes may be able to borrow against the equity value to fund higher education expenses. Interest rates and repayment terms vary. Home equity borrowers also may incur administrative costs, such as a home appraisal fee. Interest paid on certain home equity loans may be tax-deductible, if taxpayers itemize deductions on their federal tax returns. Of course, borrowers who fail to make payments on a home equity loan risk losing their house.

## About the PLUS Master Promissory Note

Parents may take out multiple PLUS loans by signing one PLUS Loan Application and Master Promissory Note. You must use a separate PLUS MPN for each dependent student for whom you obtain a PLUS loan, however.

The PLUS MPN is valid for new loans even if the student changes schools. At any time, the parent-borrower may choose to complete a new PLUS MPN.

When using a PLUS MPN, if the parent obtains an endorser for a PLUS loan, the endorsement applies only to that loan. If the parent obtains new loans subsequent to the first endorsed loan, the parent must sign a new MPN and, if applicable, obtain an endorser signature for the subsequent loan.

## Deferment, forbearance and cancellation

Parent PLUS loan borrowers can defer repayment while they are enrolled at least half time. On new PLUS loans, parent-borrowers also can request deferred payments while the dependent student is enrolled at least half time, and for six months after the parent-borrower or student no longer is enrolled at least half time. A parent PLUS loan borrower also qualifies to defer loan payments if the parent-borrower is in school at least half time, is unemployed, encounters specified economic hardships, or is on active duty in the military.

PLUS loan borrowers who don't meet any of these criteria, but who still are having difficulty making their loan payments, may request forbearance to temporarily reduce or delay their loan payments. In either case, interest will continue to accrue during the period of deferment or forbearance.

PLUS loan repayment obligations can be canceled if the borrower or the dependent student dies, the borrower meets federal criteria for total and permanent disability, the borrower proves undue hardship before a bankruptcy court and in certain other circumstances.

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