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# 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. Remember, applying for a private student loan does not obligate you to accept it.

	PLUS Loan for Parents <sup>1</sup>	School-Certified Private Student Loan <sup>2</sup>
Whose name is on the loan?	Parent	Student and cosigner (if applicable)
Cosigner requirement	No. If parent has adverse credit history an endorser may be required.	No, but if you’re a student with little or no credit history, it may be difficult for you to qualify for a loan without a creditworthy cosigner. Having a cosigner may also help a borrower qualify and obtain a better rate.
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, makes a specified number of on-time payments and meets underwriting requirements.
Interest rate	For loans first disbursed on or after July 1, 2016, and before July 1, 2017, the interest rate is 6.31%. For loans first disbursed on or after July 1, 2017, and before July 1, 2018, the interest rate is 7.00%.	Many lenders offer both variable and fixed interest rates. Rates range from 2.75% to 11.03% for variable and 4.75% to 12.99% for fixed. Rates are typically based on the borrower and cosigner’s credit history so those with good credit may qualify for a lower rate.
Origination/disbursement fees	4.276% for loans first disbursed on or after October 1, 2016 and before October 1, 2017.	Varies by lender — most offer 0%.
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 of principal and interest payments.	Varies by lender; typically terms of 5-15 years of principal and interest payments.
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. Applicant or endorser cannot have an adverse credit history.	Yes. Loan approval and pricing is generally based on creditworthiness.



	PLUS Loan for Parents <sup>1</sup>	School-Certified Private Student Loan <sup>2</sup>
Minimum enrollment status	At least half time.	Varies by lender. Some offer loans to borrowers who are attending school less than half time.
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 and for 6 months after graduation (interest continues to accrue during this time and 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 is added to the loan's principal amount when the deferment period ends). Many lenders offer options to make monthly 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 the parent applies and is denied, the student is eligible for additional unsubsidized Stafford loans.	The student could apply with a different cosigner if the cosigner was denied, or apply with another private lender.
Repayment plans	PLUS loans for Parents 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 <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.

<sup>1</sup> Federal student loan rate and fee information is based on a May 30, 2017 Electronic Announcement and May 31, 2016 Dear Colleague Letter from Federal Student Aid, an office of the U.S. Department of Education. Other federal student loan information was gathered on May 25, 2017 from studentaid.ed.gov. Check this website for the most up-to-date information about federal loan products. Rates, fees and availability of federal loan products are subject to change by the Federal Government.

<sup>2</sup> Interest rates, fees, terms, and borrower benefits based on a May 10, 2017 review of national school-certified private loan programs offered by publicly-traded companies or subsidiaries thereof. Private loans that have variable rates may go up or down based on the changes of an underlying interest rate index.

<sup>3</sup> For more information see IRS Publication 970 or consult a tax advisor.

EXPLORE FEDERAL LOANS AND COMPARE TO ENSURE YOU UNDERSTAND THE TERMS AND FEATURES. PRIVATE EDUCATION LOANS THAT HAVE VARIABLE RATES CAN GO UP 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, GRADUATED REPAYMENT AND EXTENDED 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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