Mapping Your Future®
MappingYourFuture.org

Parent PLUS Loans

- Allows parents to borrow money to pay for a dependent student's college education
- Loan is in parent’s name and parent is responsible for the loan (not student)
- No collateral is needed
- Requires a credit check, usually only looking for adverse credit

Understanding PLUS loan borrowing

You must repay your loans, even if your student:

- does not complete his or her education;
- is not employed upon completion of his or her studies; or
- feels that the education he or she received did not meet expectations.

Generally, federal student loans may not be cancelled or discharged due to bankruptcy.

Always borrow conservatively!

- Before you decide on the amount you need to borrow, review the actual out-of-pocket costs your student will incur against the financial aid and other resources available.
- The school may award a PLUS loan up to your student's cost of education minus any other financial aid, including scholarships. This is the MAXIMUM amount you may borrow. Only borrow what you need.
- Remember, you can apply for another Federal PLUS loan during the academic year if you discover you need more funding, as long as you don't exceed the cost of education, less financial aid.
- You may reduce or cancel your loan at any time before you receive the loan funds.
- The lender will forward the Federal PLUS loan check to the school (unless your student is at a foreign school).
- You, as the borrower, will receive a Notice of Disclosure (NOD) from the lender. The NOD will detail the loan amount and interest rate, estimate the amount of interest that may be charged, and estimate monthly payments attributable to the loan.
- You would normally be required to start repayment on your loan effective the date the loan is fully disbursed, with the first payment due no more than 60 days later. However, for loans first disbursed on or after July 1, 2008, you can request to defer repayment

during the time you (or your child) is enrolled at least half time and until six months after you (or your child) graduate, withdraw, or drop below half-time enrollment. **Interest will continue to accrue on the loan even if it is deferred.**

Satisfactory academic progress

Your student must meet satisfactory academic progress standards set by his or her school in order to receive federal student aid!

Withdrawals and refunds

- The law specifies the amount of financial assistance the student earns each academic year and how the school determines eligibility.
- If the student withdraws, the school uses a specific formula to calculate how much aid he or she has earned to that point.
    - If the student received less assistance than the amount earned, he or she will be able to receive those additional funds.
    - If the student received more assistance than he or she was entitled to, the excess funds must be returned to the lender or program.

If the student ceases attendance at the school before the end of the loan period, the school may be required to refund all or part of the student's financial aid. Please contact the school for its published refund policy.

Loan servicers and sales

- Frequently, lenders contract with loan servicers to maintain student loan records and files. Your servicer is responsible for processing payments or deferments, among other duties.
- In other cases, the lender sells the loan. You must direct future payment, correspondence, and questions to the new loan holder.

Applying for a Federal PLUS Loan

Should your student apply for financial aid?

Some parents associate financial aid strictly with "student loans" and are skeptical of suggesting that their student borrow a large amount of loans when they are just getting started in their adult life. However, student loans are just one part of the financial aid package. There is a possibility that your student could be awarded other financial aid benefits such as grants, scholarships, or even work-study.

Applying for financial aid should always be your student's first step in funding his or her education. If your student does borrow student loans, there may be benefits with the loan obligation:

- Can help build a credit rating for student
- Interest rate is much lower on federal student loans than on personal loans or credit cards
- Student doesn't have to make payments on most federal student loans while attending school at least half time (and the government pays interest during this time for some loans)
- Most students have 6-month grace period after they leave school before required to start making payments (and the government pays interest during this time for some loans)
- Flexible repayment plans

After your student receives his or her financial aid award, if you want (or need) to help with the costs of education, you may want to consider a Federal PLUS loan.

To apply for a Federal PLUS loan, you, the parent borrower, must complete the Borrower Section of the Master Promissory Note, and your dependent student must complete the Student Section. It's important to understand the terms of the Federal PLUS loan and your responsibility for repaying the loan.

The PLUS Master Promissory Note (MPN):

- is a binding legal agreement you sign to indicate your commitment to repay your Federal PLUS loan;
- may be used for multiple loans for up to 10 years if your lender and the school your student is attending uses the multi-year feature;
- is for loans only for the dependent identified; and
- contains your rights and responsibilities.

You may be required to sign a new MPN if the school or your lender requires it or if you wish to use a new lender. If you would feel more comfortable completing and signing a new MPN each time you borrow, you may do so. Using the single-year feature, you will sign one MPN for every Federal PLUS loan that you obtain.

The multi-year feature of the MPN will be revoked after the earliest of the following dates:

- The date your loan holder receives your written notice that no further loans may be disbursed under the note;
- 12 months after the date you sign the MPN if there have been no disbursements during this 12 month period; or
- 10 years from the date you sign the MPN.

Your loan holder also may revoke the terms of the MPN in situations such as bankruptcy.

Fast loan facts

- Every school awards financial aid differently. The school may notify you of the Federal PLUS loan amount you are eligible to borrow, or you may need to request information from the school's financial aid office.

- You may decline a loan or request a lower amount by contacting your loan holder or the school.
- You should apply only for what you will need to pay your student's educational expenses each year.
- You must sign a Federal PLUS MPN for each student.
- The school or lender may require that you confirm the loan package or each loan disbursement.

Loan limits

The annual maximum that may be borrowed under this program is the difference between the cost of education minus any financial aid received. There is no aggregate maximum.

Loan programs

You can borrow a PLUS loan under one of two federal student loan programs, each with the same general terms, conditions, interest rates, benefits and loan amounts.

- Federal Family Education Loan (FFEL) Program: Private lenders such as banks, credit unions, and savings and loan associations make the loans. You choose your lender.
- Federal Direct Student Loan Program (FDSLP): The U.S. Government makes loans through schools

Your student's school usually will participate in one of the programs.

Alternatives to a Federal PLUS Loan

As a parent, you may be wondering if borrowing the money for your student's education is best done through Federal PLUS loans, or if you should pursue other avenues to borrow the money. The following are just some of the differences you'll find with private industry loans versus a Federal PLUS loan.

Home equity or private/personal loans

- Collateral typically is required
- Eligibility most likely is based on a full credit check
- Interest rate typically is fixed and/or higher than that of a Federal PLUS loan
- Closing costs may be high
- Tax deduction benefits may be available on home equity loans, but generally are not on private/personal loans
- Little or no options for payment postponement (deferment or forbearance) if you have problems repaying

Alternative/private student loans

Some students are opting to borrow alternative/private student loans instead of asking their parents to borrow Federal Plus loans. Alternative student loans can be used to cover the remaining cost of education after students have received all other forms of available financial aid.

The characteristics of these loans are usually very different from federal student loans:

- Loans are credit-based, and student may not have enough credit of his or her own, which would require him or her to have a co-signer
- Interest rate typically is based on the student's credit rating, so it may be high
- Origination fees may vary, but typically are higher than those of federal student loans
- Most have flexible repayment plans; however, postponement options are limited
- Some, but not all, alternative loans offer grace periods
- No interest subsidy on any of the alternative loans, so student is responsible for repaying all of the interest, including the interest that accrues while he or she is attending school
- Can't consolidate these loans into a Federal Consolidation Loan

Loan repayment

- You would normally be required to start repayment on your loan effective the date the loan is fully disbursed, with the first payment due no more than 60 days later. However, for loans first disbursed on or after July 1, 2008, you can request to defer repayment during the time you (or your child) is enrolled at least half time and until six months after you (or your child) graduate, withdraw, or drop below half-time enrollment. **Interest will continue to accrue on the loan even if it is deferred.**
- The maximum repayment period is 10 years.
- Payments are expected each month.
- The minimum monthly payment is $50, but may be higher depending on your balance.
- You may prepay your loan at any time without penalty. Prepayment may substantially reduce your interest costs.

You have a variety of repayment plans for PLUS loans:

- **Standard**:
  - Minimum monthly payment is $50, but may be higher depending on balance
  - Maximum repayment period of 10 years
- **Graduated**:
  - Begins with lower payment amounts that increase over time.
  - More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
- **Income-sensitive**:
  - An adjusted payment amount based on gross income

    - Payment will be the greater of your monthly interest amount or 4 percent of your gross monthly income
    - Eligibility and payment amount verified annually
    - More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
- **Extended**:
    - Available to new borrowers on or after October 7, 1998, who have a minimum balance of $30,000 in loans
    - Payment amounts can be either fixed annually or graduated
    - Maximum repayment term is 25 years

Reminder

You, the parent, borrow the Federal PLUS loan, and you can't transfer the debt to your student. While some parents and students may agree to transfer the debt to the student, this obligation legally remains in the parent's name.

Interest rates

- **Loans first disbursed on or after July 1, 2006 have a fixed interest rate of 8.5 percent.**
- Loans first disbursed between July 1, 1998 and June 30, 2006 have a variable interest rate with a cap of 9 percent. The interest rate is adjusted each year on July 1 (your loan holder will notify you of interest rates changes annually). As of July 1, 2007, the variable rate is 8.02 percent.
- If you have a loan first disbursed prior to July 1, 1998, contact your loan holder to determine the interest rate.

Deferment and forbearance (solutions for loan repayment problems)

You may experience financial difficulty, and your loan holder offers options that temporarily reduce or suspend your monthly payment. When experiencing trouble making payments, you should contact your loan holder immediately to check on a possible deferment or forbearance. Continue making your payments until you receive written notification that deferment or forbearance has been granted.

A deferment is a period of time during which your loan holder suspends your regular payments.

- You are responsible for the interest that accrues during the deferment period.
- Your loan holder must determine your eligibility for any of these deferments.
- In most cases, to apply for a deferment, you must complete the appropriate form with all required documentation and return it promptly to your loan holder.

Learn more about deferments at mappingyourfuture.org/money/deferments.htm. Forbearance is a period of time during which your loan holder temporarily reduces or suspends your regular payments.

- You may request forbearance if you are willing but unable to make your full payment.
- You are responsible for the interest that accrues during the forbearance period.
    - You may pay the interest as it accrues or allow it to capitalize.
    - Capitalized interest is applied to the principal balance and may result in a higher monthly payment upon conclusion of the forbearance period.

If you die or the student for whom you borrowed the loan dies, your Federal PLUS loan obligation will be cancelled. Your loan also may be cancelled in other situations. Learn more at mappingyourfuture.org/paying/forgiveness.htm. **Generally, federal student loans may not be cancelled or discharged due to bankruptcy.**

PLUS loan delinquency and default

Notify your loan holder immediately if you anticipate difficulty making a payment!

- Failure to pay all or part of an installment payment when due can result in late charges.
- Your loan holder also has the option, in some cases, to file a lawsuit against you for failure to make timely payments.
- Keep in mind that this is a loan in your name, not your student's name. Even if you have made an agreement with your student where he or she will make the loan payments, you ultimately are the responsible party. Any negative consequences that occur from a default will affect you and your credit.

If you fail to make payments for 270 days, your loan is considered to be in **default**. Defaulting on your Federal PLUS loan can result in serious consequences:

- You can be sued for the entire amount of your loan.
- Your credit rating can be severely damaged, making it difficult to borrow money for a car or home, or to receive credit cards. The default status can remain on your credit report for several years after you pay the loan in full.
- Your federal Treasury payments (including federal tax refunds) and state income tax refunds may be withheld.
- Your disposable income can be garnished (administrative wage garnishment) without a court order.
- You won't be eligible to receive any more federal financial aid (and possibly state aid) unless you make acceptable arrangements to repay what you already owe.
- You may be ineligible for assistance under most federal benefit programs.
- You'll be ineligible for deferments or forbearance.
- You'll be liable for the costs associated with collecting your loan (could be as much as 25 percent of your principal and interest balance), plus court costs and attorney fees.

- You may not be able to renew a professional license you hold or may jeopardize your chances for certain types of employment.
- Your loan may be assigned to a professional collection agency.

There are three basic guidelines to follow to **avoid delinquency and default**:

- Inform your loan holder of changes in your name, mailing address, telephone, or Social Security number so that all correspondence is promptly directed to you.
- Read and keep all documents you receive pertaining to your Federal PLUS loan, and be sure to understand your loan amount and the payments that will be required.
- If you're experiencing financial hardship and are unable to make your payments, call your loan holder for information regarding possible temporary postponement or reduction of payments through a deferment or forbearance. Get more details about your options if you have problems repaying Federal PLUS loans at mappingyourfuture.org/paying/plussolutions.htm.

If your PLUS loan already is in default, you have options. Read more at mappingyourfuture.org/paying/optionsafterdefault.htm.