

PLUS or Private: Which Loan is Right for You?

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When you need help paying for educational costs – after scholarships, grants and Federal Direct Stafford Loans—you need options! Two popular options for additional educational funding are the *Federal Direct PLUS loan* for parents as well as Graduate/Professional students and *Private or Alternative student loans*.

A common question is, “Which is the better option, PLUS or Private loans?” The answer depends on a number of factors (several are listed in the chart below). This document, though not exhaustive, will offer you a starting point to think about which option will work best for your educational, financial and family circumstances.

The **Federal Direct PLUS loan** can cover up to the entire cost of attendance (COA) – as determined by the Financial Aid Department. The federal government is the lender.

A **Private Alternative Student Loan** can also cover up to the entire cost of attendance (COA). A private institution such as a bank or credit union is the lender. You should check with the lender for specific details about a private student loan.

	FEDERAL DIRECT PLUS LOAN	PRIVATE STUDENT LOAN
Primary Borrower	Parent if student is an undergraduate. Student if in a graduate/professional program.	Student. A creditworthy co-signer is usually required *
Interest Rate Type	Fixed at 6.84% for loans disbursed July 1, 2015 to June 31, 2016.	Fixed and variable options. A variable rate may substantially increase the total amount you repay.
Loan Fees	4.272% for loans with a first disbursement on or after October 1, 2015 and before Oct 1, 2016.	Varies. Many are available with no upfront fees.
Credit Requirement	Based on federal standards; does not include credit scoring or debt to income ratios. The student may be eligible for additional Unsubsidized loan funds if the parent is notable to obtain a PLUS loan.	Specific to each lender. The majority of lenders use credit scores or debt to income ratios to determine credit worthiness, interest rates and fees.
Loan Limits	Parent may borrow up to the cost of attendance (COA) less other aid.	Limits may depend on lender maximums. Student (typically with cosigner) may borrow up to the cost of attendance (COA) less other aid.
Loan Cancellation	PLUS loans can be discharged under certain circumstances including Permanent & Total Disability or if the student or parent dies.	Discharge due to death or permanent disability of a borrower may be an option for some lenders.
Repayment Terms	Begins sixty (60) days after the final disbursement, but a deferment may be requested while the student is in school Has several flexible repayment options, the standard is a 10-year term.	For most loans, student is not required to make payments while in school. Interest only or fixed rate payments may be optional to reduce overall interest. Some lenders offer up to 20 year repayment terms.
In-School Deferments/ Forbearance	A deferment may be requested while student is enrolled at least half-time (which is 6 credits for undergraduates; 4 credits for graduates). Loans for graduate students will be placed into deferment if enrolled at least half-time Options for forbearance exist.	Most loans can be deferred until after student graduates or drops below half-time enrollment (6 credits for undergraduates; 4 credits for graduates). Forbearance options may be less flexible.
Consolidation	May be consolidated with the borrower’s other federal loans. A student cannot consolidate a parent borrower’s loans with their own loans.	Some private lenders offer consolidation options. Few may allow private loans to be consolidated with federal loans.

*Caveat: there are some private student loans where the parent or a sponsor (friend, family member) is the primary borrower

ADDITIONAL FACTORS TO CONSIDER (*Direct PLUS Loan*):

- Typically, more borrowers will qualify for a PLUS loan
- Interest rates (fixed) and fees are not based on credit
- Not available to independent undergraduate students
- Student must be enrolled at least half-time (6 undergraduate credits; 4 graduate credits)
- Loan can only be used to pay current year's cost of attendance

ADDITIONAL FACTORS TO CONSIDER (*Private Loan*):

- Some borrowers receive excellent terms (currently borrowers and co-signers who have strong credit history could receive rates below the PLUS loan rate). Conversely, individuals without strong credit history may end up borrowing more expensive loans
- Some private loans can be used for past-due balances
- Some private loans can be used for less than half-time enrollment
- Some interest rates are tied to a variable factor such as the PRIME or LIBOR Index rate. This means private loan rates will vary depending on what happens to the index; rates can change monthly with no maximum
- Some lenders require monthly interest payments while students attend school
- Borrowing for less than half-time enrollment will be limited to tuition/fees, books, and transportation

How to Apply for a Federal Parent or Grad PLUS Loan:

A parent or graduate student should log into studentloans.gov with their Department of Education-issued FSA ID used to file the FAFSA (Free Application for Federal Student Aid) and select "Request a Direct PLUS Loan option." You may request or retrieve a FSA ID at fsaid.ed.gov. After completing the application process, if you are approved for a PLUS loan you are required to complete a PLUS Master Promissory Note (MPN). To do this, select the option to complete a Master Promissory Note for a PLUS loan (**new borrowers only**, typically existing borrowers are not required to sign a new MPN). If borrowing for an undergraduate student, **remember to complete the application and PLUS MPN with the parent as the borrower, not the student.** The borrower has the option to include an endorser/cosigner if the application is denied, or request to appeal the credit decision with the Department of Education. An endorser is a person who agrees to repay the PLUS loan if the borrower defaults on payments. If a borrower chooses to add an endorser to the application, the endorser will be required to complete an Endorser Addendum and a credit review will be processed. To complete the Endorser Addendum the endorser must log into studentloans.gov with their Department of Education-issued FSA ID and select the option to "Endorse a Direct PLUS Loan." If the parent decides not to add a co-signer to his PLUS application, a student may become eligible for additional unsubsidized loan funds. The parent has the option (during the application process) to request the additional unsubsidized loan if the credit check is denied, or may complete the Financial Aid Department's *Additional Unsubsidized Loan per PLUS Denial Form* and submit the form to the Financial Aid Department.

How to Apply for a Private Alternative Loan:

Please take advantage of the FASTChoice private loan tutorial available by visiting www.loans.uwm.edu and selecting the "Private Loans" link. You will be given valuable information regarding your options and responsibilities with private loans. You will also be able to compare the terms and benefits offered by a few different lenders. If you are interested in applying with any lenders shown, there is a direct link to their application. There are many lenders that participate in the private loan program, and you are not required to choose any listed on the site. You are encouraged to compare lenders here with others you have researched.

For more information about PLUS and Private student loans, please visit www.loans.uwm.edu.