

PLUS or Private: Which Loan is Right for You?

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

Which is better, a PLUS or Private loan? 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 Financial Aid Department determines a student's estimated cost of attendance (**COA**), which is the maximum a student may receive in total funding from all sources. The student or parent should determine how much they wish to borrow after considering their costs and aid offered. For the **Federal Direct PLUS loan** the federal government is the lender. For the **Private Alternative Student Loan** a private institution such as a bank or credit union is the lender. You should check with the individual 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 8.05% for loans disbursed on or after July 1, 2023 and before July 1, 2024.	Fixed and variable options.
Loan Fees	4.228% for loans with a first disbursement on or after October 1, 2020 and before October 1, 2024.	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 not able 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	The maximum a parent may borrow is the difference between the estimated total cost of attendance (COA) and the amount of other aid a student is receiving.	Limits may depend on lender maximums. Student (typically with cosigner) may borrow a maximum of the estimated cost of attendance (COA) and the amount of other aid they are receiving.
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 an option 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: Some private student loan products have the parent or a sponsor (friend, family member) as 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 expenses.

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

A parent or graduate student should:

1. Log into <https://studentaid.gov> using their Department of Education-issued FSA ID which was used to file the FAFSA (Free Application for Federal Student Aid).
2. Select the "Parent" tab if a parent or the "In School" tab if a Graduate Student, and then "Apply for a PLUS Loan".
3. 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.***
 - a. **If denied**, the borrower has the option to include an endorser/cosigner 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 should go to <https://studentaid.gov/endorser-addendum/>, enter the Borrower's last name and Endorser Code and Start. If the parent decides not to add a co-signer to the 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 contact the Financial Aid Department to make the request after the application has been submitted.

How to Apply for a Private Alternative Loan:

Please take advantage of the FASTChoice private alternative loan tutorial available by visiting <https://uwm.edu/fastchoice/>. You will be given information regarding your options and responsibilities with private loans. You will also be able to compare the terms and benefits offered by various lenders. If you are interested in applying with any lenders shown, there is a direct link to their application. However, you may elect to borrow from a lender not on this site. You are encouraged to compare lenders here with others you have researched.

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

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