Paying for College
Defining PLUS and Private Loans

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Students headed to college face many expenses, but tuition always makes the top of the list. After scholarships, grants, and work-study options have been explored, many students still don't have enough money for tuition. Among the less recognized alternatives are loans for parents of dependent students (PLUS Loans) and private loans. Here are some common questions about these two types of loans:

WHAT ARE PLUS LOANS?

PLUS Loans are unsubsidized (non-need based), low-interest federal education loans that allow parents and guardians with no adverse credit histories to borrow money for a child's education expenses, as long as the child is a dependent undergraduate student enrolled in college at least half-time. Unlike other student loans, the parent is responsible for repayment of the loan.

WHAT ARE THE BORROWING REQUIREMENTS FOR A PLUS LOAN?

To receive a PLUS Loan, both parents and students must meet federal eligibility requirements. Chief among these requirements for parents is passing a credit check. Parents who don't pass the credit check may still qualify for a loan if they can demonstrate that extenuating circumstances exist or can produce a creditworthy endorser. Parents must also be a citizen or permanent resident of the United States.

HOW MUCH CAN PARENTS BORROW AND WHAT IS THE INTEREST RATE?

The yearly limit on a PLUS Loan is equal to the total cost of the student's education, minus any other financial aid received. The interest rate is variable and adjusted each year on July 1, but is capped at 9 percent. Currently, the interest rate is 4.22 percent. Interest is charged on the loan from the date the first disbursement is made until the loan is paid in full.

WHEN SHOULD PRIVATE LOANS BE CONSIDERED?

Some families turn to private loans when federal loans don't provide enough money, or when they need flexible repayment options. Private loans are also fitting if a student doesn't qualify for a federal loan. Private loans can be applied for through private companies or banks.

WHAT ARE SOME DIFFERENCES BETWEEN PLUS AND PRIVATE LOANS?

With PLUS Loans, repayment generally begins 60 days after the loan is fully disbursed, while private loans offer a variety of repayment options depending on the lender. Both loans may require an origination fee that can be added to the loan amount. For a PLUS Loan, the fees (which include a guarantee fee) may be up to 4 percent, whereas fees for private loans may be greater. Since PLUS Loans are backed by the federal government, they usually have lower interest rates than private loans. Private loans may have repayment terms of 20, 25, or more years depending on the lender, while PLUS Loans have a repayment term of up to 10 years, or 25 years, if applicable.

WHAT ELSE SHOULD BE CONSIDERED WHEN CHOOSING A LOAN?

The interest rates and fees for private loans are often related to the borrower's credit history, so a borrower with a good credit record will likely get better rates than an applicant with bad credit. The amount of debt assumed and the variety of repayment options available under each program are also factors that should be considered when choosing a loan.

Additional information regarding education loans and application processes may be found at www.collegeplanning.nelnet.net, or by calling a Nelnet College Planning advisor toll-free at 1.866.866.7372. Nelnet is a vertically integrated educational finance organization dedicated to providing products and services that facilitate education finance for students, schools, and lenders.