

Info On The Go – PLUS and Alternative Loans

Things to Consider

If you are considering borrowing funds beyond federal Stafford or Perkins loans for your son's or daughter's education at The University of Toledo, there are a few things you should first consider. One, do you want a PLUS (Parent Loan for Undergraduate Students) or an alternative loan? Two, if you want an alternative loan, which one is right for your family? We hope this information sheet will help you answer those two questions. Please feel free to speak to our knowledgeable staff regarding any questions you may have about borrowing.

What are PLUS and Alternative Loans?

The Federal PLUS Loan (Parent Loan for Undergraduate Students) is a federal education loan borrowed by a parent or custodial stepparent for their dependent student for educational expenses not already covered by some form of financial aid. It requires a credit check for the parent borrower, and if approved, the parent is responsible for repaying the loan. The PLUS Loan is repaid by the parent, and the repayment period typically begins within 30 – 60 days after the full amount of the loan is disbursed to the school for that academic year. For most families this means that repayment begins sometime shortly after their son or daughter begins his or her second semester at the University. There are a few different repayment plans available to make repayment easier. The interest rate is based on the 91-day Treasury bill, is variable annually, and is capped at 9%. There is also a 4% insurance fee taken out of the gross amount borrowed prior to disbursement.

Alternative loans are offered by private lenders and, similar to the PLUS Loan, they may be used to cover educational expenses that are not covered by other financial aid. Also like PLUS Loans, alternative loans are subject to credit checks. Usually the student is responsible for repaying the loan, though the lender may require the student to apply with a co-borrower. A co-borrower may be any creditworthy U.S. Citizen or permanent resident that is willing to take on responsibility for the loan along with the student. Also, because an alternative loan is not a federal loan, many programs allow an international student to borrow as long as he or she has an eligible co-borrower who is a U.S. Citizen or permanent resident. Alternative loans are available with almost any combination of terms imaginable. Depending on the lender and the loan program chosen, repayment may begin immediately or may be deferred until 6 months after the student's date of at least half-time enrollment. Interest rates vary widely by lender, loan, and terms. Some have insurance fees and some do not. The primary common denominator is that an alternative loan is a private loan made to a student, usually with a co-borrower, by a bank or other financial institution. UT prefers Key Bank (<http://www.key.com/educate/alternative>), CitiAssist (<http://www.studentloan.com>) or Sallie Mae Signature Student Loan Bank One or Chase (<http://www.salliemae.com/signature>) for alternative lenders.

As you can see from the above information, there are several important differences between these two types of loan programs. The program that is right for you will depend on your family's priorities and financial situation. Below is a side-by-side comparison of the two programs.

Feature	Federal PLUS Loan	Private Loans*
Program Description	Federal PLUS Loans are available to parents or custodial stepparents of dependent undergraduate students attending school at least half time. PLUS loans are solely the responsibility of the parent borrower.	Private loans are generally available to undergraduate and graduate students enrolled at least half time. The loan is primarily the responsibility of the student; however, the parent or any creditworthy adult will usually be required as a co-borrower therefore sharing in the responsibility of the outstanding debt.
Eligibility	PLUS loans are not dependent upon your family's income or assets, and no collateral or cosigner is required. You must, however, meet certain credit criteria.	Terms vary by lender. Most lenders use credit scores, possibly even debt-to-income ratio, when determining creditworthiness, interest rate structure, and fees. A co-borrower may be required for foreign students and students with no credit or an insufficient credit history.
Interest Rate	Variable annually, based on 91-day Treasury bill, capped at 9%.	Variable interest rates, can vary as often as monthly depending on lender, usually based on Prime or LIBOR**, rates do not have a cap.
Loan Limits	Up to full cost of education minus any other financial aid received.	Most programs allow borrowing up to full cost of education minus any other financial aid received.
Fees	A 4% federal origination fee/insurance premium will be deducted from the loan proceeds prior to disbursement.	Fees vary widely from lender to lender, anything from 0 – 9% is common. Fees usually based on credit score of student and/or co-borrower.

* Programs vary by lender

** LIBOR = London Interbank Offered Rate