



Office of Student Financial Planning

PLUS vs. Alternative Loans

If financial aid is not enough to meet the student's cost of education, parents and students are faced with the question of how to finance the remaining cost of the student's education. While savings, retirement funds or home equity loans are viable options, many parents prefer to borrow and/or co-sign with their student on an alternative loan. Alternative loans may not be the best solution for your family.

Have you considered the **Parent Loan for Undergraduate Students (PLUS)**? The PLUS Loan is a low-interest education loan that allows you to fund the entire cost of your student's education minus financial aid already awarded. Before making your decision, please take a moment to consider the compelling differences between applying for a PLUS Loan over co-signing the student's application for an alternative loan.

| <u>FEATURE</u> | <u>FEDERAL PLUS LOAN</u> | <u>ALTERNATIVE LOAN</u> |
|------------------------------|--|---|
| Interest Rate | Fixed, capped at 8.5%. | Variable, usually no cap; many programs reset quarterly. |
| Current Interest Rate | 8.5% Fixed * May be lower depending upon lender's borrower benefits. | Varies from lender to lender based on credit. Interest can range from 3%-18%. |
| Borrower | Loan is in parent's name. | Student. While loan is in student's name, usually parent is included as a cosigner. Cosigner bears equal responsibility for loan repayment and loan will appear on parent's credit bureau report as well. |
| Loan Amounts | Up to cost of student's education minus other financial aid. | Minimum and maximum borrowing limits vary from lender to lender. Some alternative loans have limits that may not cover the total amount you need. |
| Cancellation | Loan forgiven if student or parent dies. | Not usually discharged if student dies. |
| Interest Accrual | Parent may postpone payments up to 4 years – interest accrued during postponed period is capitalized. Parents may also choose to make interest-only payments while student is in school. | Interest accrues while student is in school. Some programs require student to make minimum monthly payments or interest-only payments while in school. If deferred, repayment usually begins 6 months after student graduates or leaves school. |
| Deferment/Forbearance | Deferment and forbearance options available. | Varies from lender to lender. Check with lender for availability. |
| Qualifying | Based on credit history; debt-to-income is not considered, thus making it easier to qualify. | Varies from lender to lender; often debt-to-income ratio is considered in credit decision. |
| Ease of Application | Very easy. Parents can get pre-approved and/or apply by fax or on-line. | Usually more difficult. Supporting documentation generally required (proof of income, co-borrower addendum, etc.). |
| Fees | Typically 3% origination fee. | Fees vary from lender to lender. May include origination and/or repayment fees. Fees can range from 0% to 16%. |
| Repayment Term | Usually 10 years, depends on repayment option. | Varies among lenders. Typically, 10-25 years. |
| Consolidation | Can be consolidated in a Federal Consolidation Loan. | Cannot be added to a Federal Consolidation Loan. |

* For PLUS Loans disbursed July 1, 2008 – June 30, 2009.

CALL US TODAY

Please contact the Carthage College Office of Student Financial Planning if you have any questions regarding your financing options. We can be reached at 262-551-6001 or 1-800-351-4058 ex. 6001 or via e-mail at finaid@carthage.edu.