

Understanding gap financing options

The Federal Parent PLUS Loan, private student loans, and private parent loans

Many families are considering financing their student’s education with either a Federal Parent PLUS Loan or a private education loan. This comparison chart will help you understand the features and benefits of each.

Interest rates and fees for private loans vary between lenders and are typically based on the credit of the individual borrower and cosigner. We recommend that you apply for one or more private loans and compare your options before deciding which type is best for you. Remember, applying for a private loan doesn’t obligate you to accept it.

	Federal PLUS Loan for Parents ¹	School-certified private student loan ²	Private parent loan ²
Primary borrower	Parent	Student	Parent or other eligible non-student individual
Credit check required	Yes, a parent with an adverse credit history may obtain an endorser or meet additional requirements to qualify.	Yes, loan approval and pricing is generally based on creditworthiness.	Yes, loan approval and pricing are generally based on creditworthiness.
Cosigner requirement	No, but a parent with adverse credit history may obtain an endorser.	No, but a student with little or no credit history may have a better chance of getting a loan by applying with a creditworthy cosigner.	Yes, loan approval and pricing are generally based on creditworthiness.
Cosigner release option	This loan does not require a cosigner.	Many lenders provide a cosigner release option where the student can apply to release the cosigner after they graduate, make a specified number of on-time payments, and meet underwriting requirements.	Varies by lender, check for availability
Interest rate	For loans first disbursed on or after July 1, 2019, and before July 1, 2020, the interest rate is 7.08%	Many lenders offer both variable and fixed interest rates. Interest rates for undergraduate students start from 3.50% to 12.61% for variable and range from 4.30% to 12.49% for fixed. Although lenders may consider multiple factors, rates are generally based on the borrower’s and cosigner’s creditworthiness, so those with good credit may qualify for a lower rate.	Most lenders offer fixed interest rates ranging from 5.75% to 12.99%. Some lenders may also offer variable rates, which start from 5.41% to 12.74%. Rates are generally based on the applicant’s creditworthiness; other factors such as income and repayment term may also be considered.
Origination/disbursement fees	4.248% for loans first disbursed on or after October 1, 2018 and before October 1, 2019	Varies by lender, most offer 0%	Varies by lender, most offer 0%
Minimum payment amount while the student is enrolled in school	Loans will automatically be placed in principal and interest repayment. The borrower can apply to have the PLUS loan payments deferred while the student is in school and for six months after graduation, leaving school, or dropping below half-time enrollment (interest continues to accrue during this time and unpaid interest is added to the loan’s principal amount when the deferment period ends).	Varies by lender; many lenders allow private loan payments to be deferred while in school (interest accrues during this time and unpaid interest is added to the loan’s principal amount when the deferment period ends). Many lenders offer options to make interest payments during the in-school period.	Varies by lender; some lenders allow interest-only payments while in school. Others may offer or require immediate principal and interest repayment.
Repayment term	10 – 25 years of principal and interest payments	Varies by lender; typically terms of 5 – 15 years of principal and interest payments are offered.	Varies by lender; typically terms of 5 – 15 years of principal and interest payments are offered.

	Federal PLUS Loan for Parents ¹	School-certified private student loan ²	Private parent loan ²
Payment flexibility	PLUS loans are eligible for multiple repayment plans including standard, graduated, and extended repayment options, federal consolidation, and some public service loan forgiveness options. See studentaid.ed.gov for more information.	Most lenders will work directly with the borrower to assess repayment options. Some lenders offer graduated repayment options.	Most lenders will work directly with the borrower to assess repayment options.
Responsibility to pay	Parent and endorser (if applicable)	Student and cosigner	Parent or other creditworthy adult
Loan limits	Up to 100% of the school-certified expenses, minus other financial aid received	Generally, up to 100% of the school-certified expenses, minus other financial aid received; lenders can have different loan limits for different loan programs and may base the limits on various factors.	Varies by lender, may or may not require school certification; some lenders may have minimum and maximum loan amounts and may base the limits on various factors.
Minimum enrollment status	At least half-time	Varies by lender; some offer loans to borrowers who are attending school less than half-time.	Varies by lender; some offer loans to borrowers who have students who are attending school less than half-time.
Application process	Online with the Department of Education through the FAFSA process but some schools have different application processes.	Online with lender or other potential application options, e.g., applying over the phone	Online with lender or other potential application options, e.g., applying over the phone
Free Application for Federal Student Aid (FAFSA) required	Yes, but some schools have different application processes.	No, families are not required to complete the FAFSA unless it is the policy of the school.	No, families are not required to complete the FAFSA unless it is the policy of the school.
Borrower benefits	0.25 percentage point interest rate reduction for automatic debit enrollment.	Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender.	Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender.
Death and disability loan forgiveness	Yes, if the parent dies or becomes totally and permanently disabled or if the student beneficiary dies and certain conditions are met, then the loan will be discharged.	Varies by lender; some waive the remaining balance in the event of the primary borrower's death or permanent and total disability.	Varies by lender; some lenders waive the remaining balance in the event of the student's death or permanent and total disability.
Ability to consolidate through the Department of Education	Yes, parents can consolidate with other federal loans in their name (not the student's).	No, they cannot be included with federal student loans.	No, they cannot be included with federal student loans.
Options for denied loans	If the parent is unable to obtain the loan, the student may be eligible for additional unsubsidized loans.	Student can apply with a different cosigner if the cosigner is denied.	Varies by lender; parent or other creditworthy individual may be able to obtain a cosigner.
Tax deduction for interest paid³	The interest paid on the loan may be deductible subject to IRS guidelines.	The interest paid on the loan may be deductible subject to IRS guidelines.	The interest paid on the loan may be deductible subject to IRS guidelines.

This information is provided by Sallie Mae for your reference.

Borrow responsibly

We encourage students and families to start with savings, grants, scholarships, and federal student loans to pay for college. Students and families should evaluate all anticipated monthly loan payments, and how much the student expects to earn in the future, before considering a private student loan.

¹ Federal student loan rate and fee information is based on a May 23, 2019 Electronic Announcement from Federal Student Aid, an office of the U.S. Department of Education. Other federal student loan information was gathered on May 28, 2019 from studentaid.ed.gov. Check this website for the most up-to-date information about federal loan products. Rates, fees and availability of federal loan products are subject to change by the Federal Government.

² Private loan information is based on a June 30, 2019 review of national private loan programs offered by publicly-traded companies or subsidiaries thereof. Interest rates are valid as of June 30, 2019. Private loans that have variable rates may go up or down based on the changes of an underlying interest rate index.

³ This information is not meant to provide tax advice. For more information, see IRS Publication 970.

Explore federal loans and compare to ensure you understand the terms and features. Private loans that have variable rates can go up over the life of the loan. Federal student loans are required by law to provide a range of flexible repayment options, including, but not limited to, Graduated Repayment and Extended Repayment plans, and loan forgiveness and deferment benefits, which other student loans are not required to provide. Federal loans generally have origination fees, but are available to students regardless of income.

This information valid as of 9/25/2019.

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