GAP FINANCING OPTIONS: PRIVATE & PLUS LOANS

What You Need to Know in 2013

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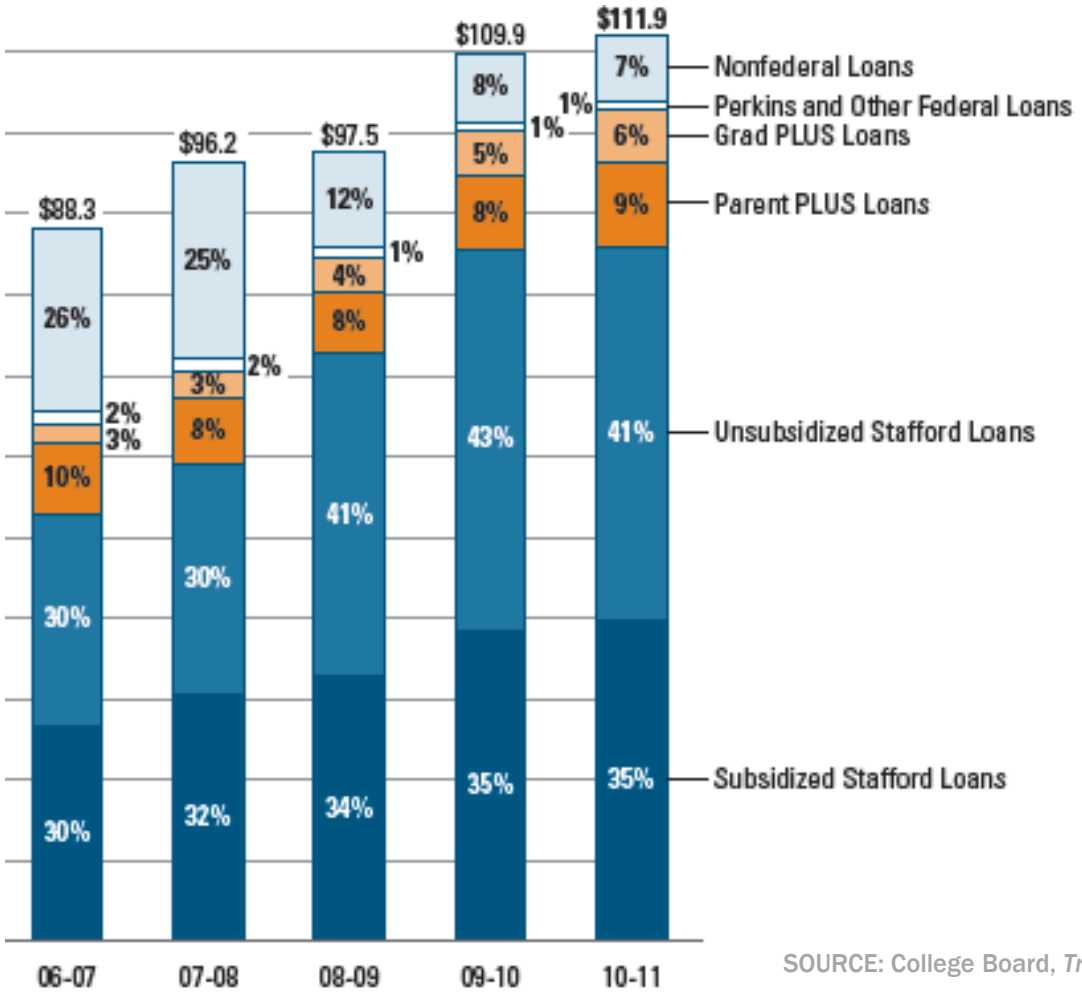
Student Loans: Growth of Federal & Private Loans



SOURCE: College Board, *Trends in Student Aid 2011.*

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Understanding the Differences between Private and PLUS Loan Programs

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Application and Responsibility

- Who can apply for the loan?

Parent PLUS	Grad PLUS	Private Loan
Parent	Graduate/Professional Student	Student or Student with Cosigner (parent or other creditworthy individual)

- Who is responsible for the loan?

Parent PLUS	Grad PLUS	Private Loan
Parent	Graduate/Professional Student	Student and Cosigner*

*Many Private Lenders offer a cosigner release program.

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Enrollment, Eligibility and FAFSA Requirements

- Enrollment Requirement:

Parent PLUS	Grad PLUS	Private Loan
At least half time	At least half time	Varies by lender – less than half time is available

- Program Eligibility:

Parent PLUS	Grad PLUS	Private Loan
Degree Seeking	Degree Seeking	Varies by lender – many lenders offer loans to non-degree seeking students

- FAFSA Requirement:

Parent PLUS	Grad PLUS	Private Loan
YES	YES	Varies by lender – most do not require

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Interest Rates, Fees & Discounts

- Interest Rates:

Parent PLUS	Grad PLUS	Private Loan
Fixed Rate: 7.9% (APR: 7.89% to 8.79%) Variable Rate: N/A	Fixed Rate: 7.9% (APR: 8.35% to 8.79%) Variable Rate: N/A	Varies by lender Fixed Rate: 5.49% to 13.99% (APR: 5.49% to 13.79%) Variable Rate: 2.25% to 11.27% (APR: 2.25% to 10.57%)

- Fees:

Parent PLUS	Grad PLUS	Private Loan
4.204% Origination Fee	4.204% Origination Fee	Varies by lender 0% to 5% Origination Fee

- Reductions and Discounts:

Parent PLUS	Grad PLUS	Private Loan
0.25% Auto Debit Only	0.25% Auto Debit Only	Most lenders offer 0.25% Auto Debit Additional benefits vary by lender

Interest Rates and Borrower Benefits based on a April 16, 2012 review of national private loan programs.

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Repayment Terms

- In-School Deferment:

Parent PLUS	Grad PLUS	Private Loan
Immediate repayment after final disbursement; may request in-school deferment while the student on whose behalf a parent borrowed is enrolled in school at least half time and for 6 months after enrollment	Immediate repayment after final disbursement; but automatically deferred while the student borrower is enrolled in school at least half time and for 6 months after enrollment, unless requested otherwise	Most programs offer deferred payments while in school with an additional grace period; interest payments while in-school are also offered by most lenders

- Standard Repayment Term:

Parent PLUS	Grad PLUS	Private Loan
10 years	10 years	Varies by lender – typically 5-15 year terms are offered

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Loan Forgiveness & Death/Disability Coverage and Servicing

- Loan Forgiveness:

Parent PLUS	Grad PLUS	Private Loan
YES	YES	Varies by lender

- Death and Disability coverage:

Parent PLUS	Grad PLUS	Private Loan
YES	YES	Varies by lender

- Who services the loan?

Parent PLUS	Grad PLUS	Private Loan
U.S. Dept of Education contracted servicers	U.S. Dept of Education contracted servicers	Lender

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Encouraging Responsible Borrowing

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How much should they borrow?

- Families should consider their financial situation and the student's future earning potential in his/her chosen field

- How much is too much?
  - Only borrow what they think they can afford to pay back later
  - Monthly student loan payment should be no more than 10% of pre-tax monthly income
  - The total amount borrowed should not be more than expected annual starting salary

To help estimate future income potential, students can visit the US Department of Labor at www.bls.gov/oco/

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How much will it cost ?

- Due to accrued and capitalized interest, the amount families will have to repay is more than the amount borrowed

- The total interest a borrower pays depends on:
  - Interest Rate
  - Origination or Disbursement Fees
  - Repayment
  - Benefits

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Understanding Fixed and Variable Interest Rates

- Fixed Interest Rates
  - Interest Rate is determined at time of loan approval and does not change for the life of the loan
  - The interest rate is typically based on the market rate
- Variable Interest Rates
  - Interest Rate is determined at time of loan approval and will fluctuate over time
  - The interest rate is based on two components: an index plus a credit-based margin (determined by lender)
- Starting rate on a variable rate loan is usually lower than the rate on a fixed rate loan.

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How Variable Interest Rates Work

- Index
  - Index rate will vary over time based on economic conditions
  - Common indices used for student loans:
    - LIBOR (London Interbank Offered Rate)
    - WSJ Prime Rate (Wall Street Journal Prime Rate)
- Margin
  - Margin is set by the lender
  - Is locked in at the time of credit approval
- Consumer concerns with variable interest rates:
  - Fear of interest rates rising
  - Lack of predictability

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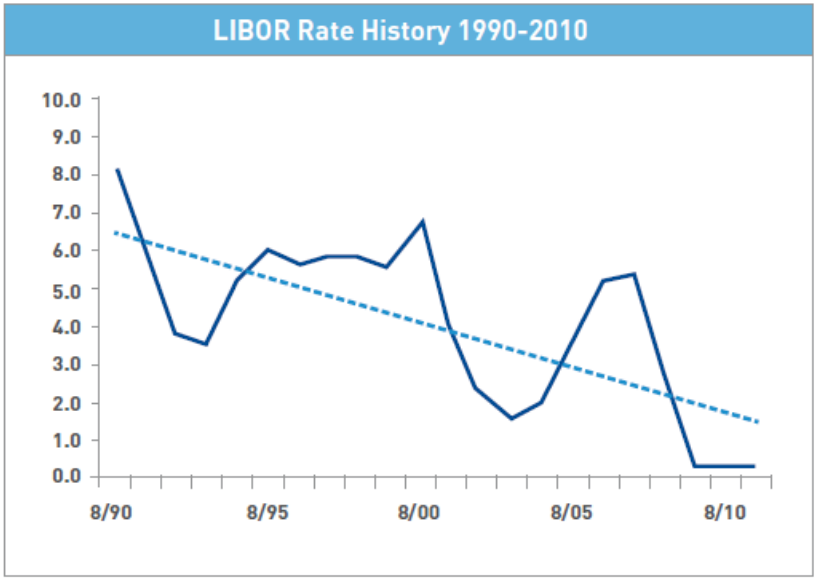
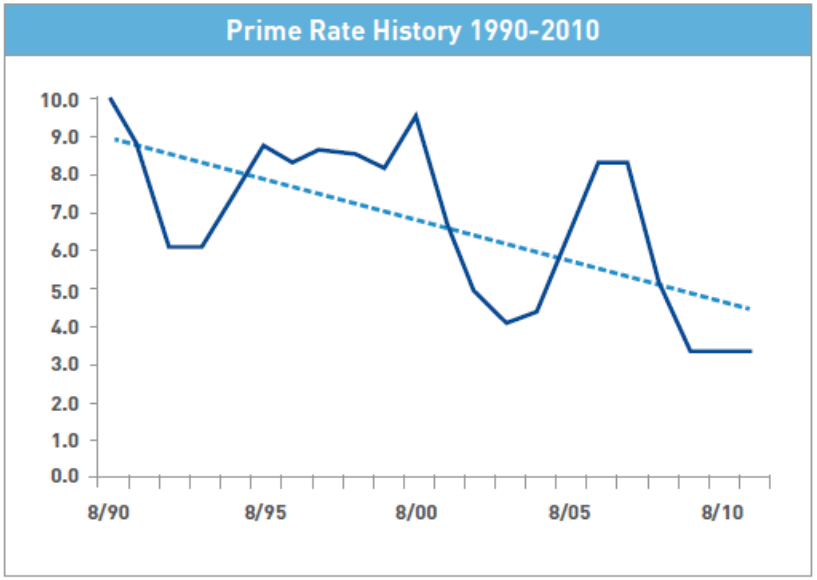
History of Variable Interest Rates





Over the past two decades, variable rates have decreased slowly with slight temporary movements in both directions.

Historically the average has remained below variable rates.

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Fixed vs. Variable Payment Impact Example

Repayment Period	Monthly Payment Fixed Rate Loan @ 9.0%	Monthly Payment Variable Rate Loan	Variable Rate @ LIBOR + 3.0%: Changing every 12 months
Year 1	$126.68 for 120 months	$125.22	LIBOR = 5.73% + 3.0% = 8.73%
Year 2		$123.45	LIBOR = 5.37% + 3.0% = 8.37%
Year 3		$129.08	LIBOR = 6.63% + 3.0% = 9.63%
Year 4		$117.11	LIBOR = 3.58% + 3.0% = 6.58%
Year 5		$111.36	LIBOR = 1.82% + 3.0% = 4.82%
Year 6		$109.47	LIBOR = 1.12% + 3.0% = 4.12%
Year 7		$110.62	LIBOR = 1.65% + 3.0% = 4.65%
Year 8		$114.05	LIBOR = 3.69% + 3.0% = 6.69%
Year 9		$115.94	LIBOR = 5.33% + 3.0% = 8.33%
Year 10		$116.03	LIBOR = 5.50% + 3.0% = 8.50%
Total Repaid:	**$15,201**	**$14,068**	**Average Rate: 7.04%**

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Repayment Options While In-School

- **No payments**: Payments are deferred while in school
- **Paying the interest**: Monthly interest payments are made while in school

Impact of In-School Payments

In-School Plan	In-School Payment	Balance at Repayment	Principal & Interest Payment (10 yrs)	Total Amount Paid
No Payment	$0	$13,286	$161	$19,339
Pay Interest	$66	$10,000	$122	$17,848

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Repayment Terms After Graduation

- **Term**: Amount of time allotted to pay back the loan after the student graduates

Impact of Longer Terms

Loan Amount	Repayment Term	Monthly Payment	Total Interest Paid	Total Amount Paid
$10,000	10 years (120 months)	$122	$7,848	$17,848
$10,000	15 years (180 months)	$ 96	$10,486	$20,846

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Comparison of Parent PLUS vs. Cosigning a Private Loan

	Parent PLUS	Private Student Loan*
Responsibility to repay	Parent	Parent and student on cosigned loan (most students need a cosigner)
Can responsibility be transferred?	No	Yes, with cosigner release
Interest rate	7.9% fixed	LIBOR +2.0% to +9.875% variable 5.75% to 11.85% fixed
Origination Fee	4.204%	0%
Benefits	0.25% ACH	0.25% ACH 2% Smart Reward
Repayment term	10 – 25 years	5-15 years
Repayment Features	Graduated & Extended Repayment Federal Consolidation Public Service Loan Forgiveness	N/A
Enrollment status	At least half-time	Includes less than half-time
Consumer safeguards	Death & disability loan forgiveness	Death & disability loan forgiveness Tuition insurance

*Based on Sallie Mae Smart Option Student Loan

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Comparison of Graduate PLUS vs. Private Loan

	Graduate PLUS	Private Student Loan*
Responsibility to repay	Student	Student Student and Parent on cosigned loan
Can responsibility be transferred?	No	Yes, with cosigner release
Interest rate	7.9% fixed	LIBOR +2.0% to + 7.25% variable 5.75% to 8.63% fixed
Origination Fee	4.204%	0%
Benefits	0.25% ACH	0.25% ACH 2% Smart Reward
Repayment term	10 – 25 years	5-15 years
Repayment Features	Income Based Repayment Income Contingent Repayment	Graduated Repayment Standard Repayment
Enrollment status	At least half-time	Includes less than half-time
Consumer safeguards	Death & disability loan forgiveness	Death & disability loan forgiveness Tuition insurance

*Based on Sallie Mae Smart Option Student Loan

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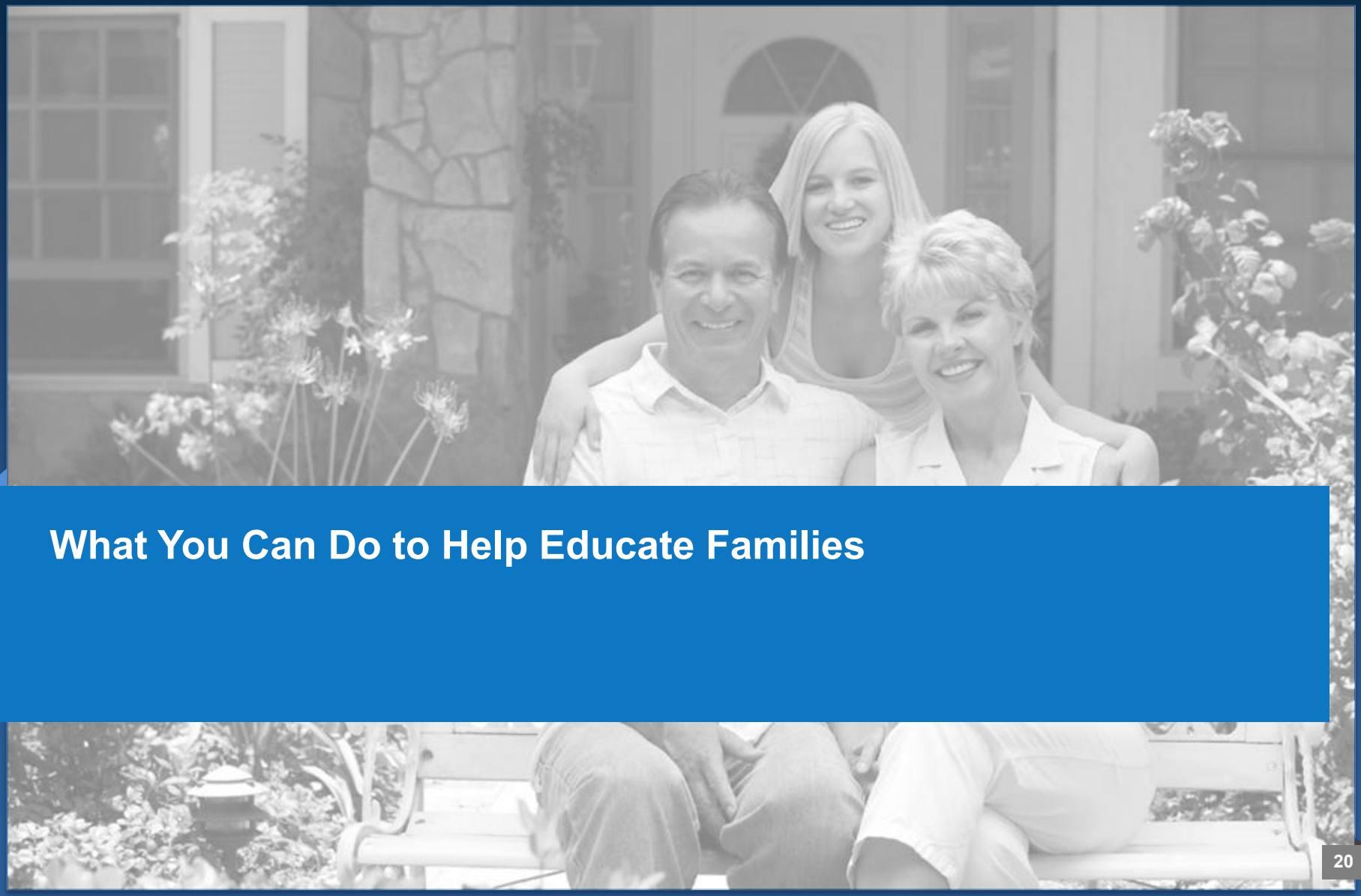

What You Can Do to Help Educate Families

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Next Steps

- Prepare you and your staff to discuss gap financing options that include both **Private** and **PLUS**
  - Understand the different loan programs
  - Understand the factors that impact the total loan cost
- Consider adding language to award letter or website to encourage families to be better informed of their choices
- If you offer students and families a lender list, make sure the information is up-to-date and the links are accurate

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Best Practices

- Ole Miss
- Texas Christian

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Questions

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Appendix

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