

## FINDING THE RIGHT WAY FOR YOU

The thought of paying for your child's college education can be overwhelming, to say the least. But it may be more attainable than you think, thanks to PLUS loans and other types of financial aid. And with the information you need to make wise financial choices, you'll be able to give your child all the benefits higher education has to offer.

### Here to Help

Great Lakes Higher Education Guaranty Corporation is here to help you meet your family's education goals. As you evaluate your financial aid options, we can help you make sure you know everything you need to know along the way. As a nonprofit, we have no financial interest in your child's education—only human interest in their success.

Visit [mygreatlakes.org](http://mygreatlakes.org) for more on paying for college and building a bright financial future.

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## PLUS LOANS for Parents

### Helping Parents Help with School

## BRIDGING THE GAP

You want your child to have all of the benefits that higher education has to offer. But college is expensive and the financial aid your child receives might not cover the cost. If you would like to pay for some college expenses, but don't have money on hand to bridge the gap between your child's financial aid and the cost of his or her education, federal PLUS loans are an affordable option. PLUS loans are available regardless of your income or financial need.

### The Advantages

**Fixed Interest Rate.** PLUS loans allow you to lock in a low, fixed interest rate of 8.5 percent for the life of the loan.

**Flexible Loan Amounts.** You can borrow up to the total cost of attendance at your child's school, minus any other financial aid received. You can use the money to help pay for your child's tuition and other educational expenses.

**Convenience.** Many schools and lenders offer a quick and convenient online application process. You generally apply only once with the lender at the beginning of your child's program. Your loan application and promissory note is kept on file so you don't have to complete a new form each time you borrow (although your child's school will need to certify the loan amount each time).

**Tax Benefits.** Depending on your income, interest paid on a PLUS loan may be tax deductible.

**In-School Deferment.** You have the option to defer payments while you or the student on whose behalf you borrowed are enrolled on at least a half-time basis. Once the in-school deferment ends, you may continue deferring payments for an additional six months. You must contact your lender to request the in-school deferment and the post-deferral six-month period.

## WORTH CONSIDERING

**Fees.** Besides interest, you will be charged a federal origination fee of 3 percent of the loan amount that is deducted from the loan amount prior to disbursement. Also, you may be charged a federal default fee on your PLUS loan that could add another 1 percent to the total fees.

**Repayment Flexibility.** If you have trouble making payments in the future, you may be eligible for other deferments or forbearance to temporarily reduce or suspend your monthly payments.

**Interest Accrual.** Interest begins to accrue from the date of the first disbursement and is your responsibility, not your child's. Interest will continue to accrue during any in-school deferment or six-month post-deferral period. You can choose to pay the interest or have it added to your loan's balance (capitalized).

**Eligibility.** To qualify for a PLUS loan as a parent, you must be a U.S. citizen or eligible noncitizen. You must also be your child's biological or adoptive parent—or a step-parent whose income and assets were reported on the Free Application for Federal Student Aid (or would have been reported if one had been filed). Your child must be under 24 years of age, be unmarried, have no dependents, and be enrolled at least half-time in an undergraduate program at an eligible institution. If you have more than one child you wish to borrow for, you must apply for separate PLUS loans for each of them.



## GETTING A PLUS LOAN

**1. Review school requirements.** Each school's process for PLUS loans is usually detailed on the financial aid section of its website—or in other materials provided by the school.

Review the requirements and determine whether your child will need to complete the Free Application for Federal Student Aid (FAFSA). Completing the FAFSA ensures that your child is considered for all forms of federal aid and potentially reduces the amount you eventually borrow. However, your child's school may not require the FAFSA if the only federal financial aid your family is seeking is a PLUS loan. Be sure to complete any other financial aid forms required by the school.

**2. Apply.** Find a lender that is right for you. Ask the financial aid office if you need help making an informed decision. Your lender will provide a Federal PLUS Loan Application and Master Promissory Note (MPN) for you to complete. Depending on the school and the lender, you may be able to apply online.

Your lender will perform a mandatory credit check. If you don't pass the credit check, explore other options for getting a PLUS loan, including enlisting the help of a credit-worthy endorser.

Once your PLUS loan is approved, the lender will send the money directly to your child's school. After paying costs owed to the school, any leftover money is delivered to you, or can be given to your child if you choose. This money should be used to cover other educational costs authorized by the school.

To receive an early estimate of your child's financial aid eligibility, fill out the FAFSA4caster. Log on at [FAFSA4caster.ed.gov](https://fafsa4caster.ed.gov).

## REPAYING A PLUS LOAN

Payments on your PLUS loan begin within 60 days after the money is fully disbursed. You can, however, defer payments while you or the student on whose behalf you borrowed are enrolled in school at least half-time. You are also able to continue the in-school deferment for an additional six months once you or your student ceases to be enrolled at least half-time. You must contact your lender to request the in-school deferment and the post-deferral six-month period.

Payments are due each month, and you are legally responsible for them—not your child. This is true even if your child agrees to make the loan payments. You will be required to repay the entire loan even if your child doesn't graduate or can't find a job after leaving school.

In most cases, you will be expected to pay back your PLUS loan within 10 years. Your lender will offer you the opportunity to choose one of the following payment plans:

- **Standard.** Equal payments each month.
- **Graduated.** Payments start out lower and gradually increase over the life of the loan.
- **Income-Sensitive.** Payments are based on the amount of your monthly income, and are adjusted annually as your income rises or falls.
- **Extended.** Payments that are fixed or graduated over 25 years for loan debt that exceeds \$30,000. This plan is available to new borrowers on or after October 7, 1998.

Whichever plan you choose, you can pay off your PLUS loan early without penalty. If you have trouble making payments or go back to school yourself, you may be eligible for deferments or forbearances to temporarily suspend or reduce your monthly payments.

## CONSEQUENCES OF DEFAULT

If you default on, or fail to pay back, your PLUS loan, you will lose benefits such as deferments and forbearance. You also won't be able to receive federal financial aid in the future, including additional PLUS loans that your children may need to continue their education.

Collection agencies may call you at home and at work, and the IRS may withhold your tax refunds until you pay off your loans. Your credit rating will also suffer, making it more difficult and costly to get new credit cards, car loans, and mortgages. Bad credit can even affect your ability to get a job.



PLUS loans are designed to supplement your dependent child's financial aid package. To minimize the amount you borrow, make sure your child is getting the most he or she can from these other forms of financial aid:

- Scholarships
- Grants, including Federal Pell grants
- Federal Work-Study
- Other student loans, including Federal Stafford loans

## WEIGHING OTHER OPTIONS

While PLUS loans offer many advantages, there are other financing options you may wish to explore.

### Private Loans

Private loans are offered by lenders without involvement of the federal government. Some parents use private loans to bridge the gap between the cost of their child's education and the amount of other financial aid available. Compare the interest rates and benefits of private loans to those of PLUS loans to decide which is best for you.

### Home Equity Loans

If you own your home, you can borrow money against the equity you've built up to cover the costs of your child's education. However, doing so will tie up equity you might need someday. And if you fail to make payments, you risk losing your house. When considering a home equity loan, be sure to take closing costs and other fees into account as these can exceed the modest fees on PLUS loans.

### Retirement Accounts

You may be able to borrow money from a retirement account to pay for college expenses. The interest you pay on the loan goes back into your retirement account to help compensate for the lost investment earnings on your nest egg. But if you fall behind on making payments, there can be serious tax consequences.

If you have a Roth IRA, you can withdraw funds to pay for qualified education expenses without paying the 10% penalty. And if you're careful to withdraw only money you contributed, you can do so tax-free.

There are many things to consider before attempting to use retirement funds to pay for education, so it's important to consult a financial planner or tax professional first.