



## Direct PLUS Loans / Federal PLUS Loans for parents

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### **Direct PLUS Loans:**

- Allow parents to borrow money to pay for a dependent student's college education
- Are in the parent's name and the parent, not the student, is responsible for the loan
- Require a credit check to determine if adverse credit history exists
- Do not require collateral

### **Applying for financial aid is an important step your child should take toward funding his or her education.**

After your child receives his or her financial aid award, if you want (or need) to help with the costs of education, you may want to consider a Direct PLUS Loan.

### **Applying for a Direct PLUS Loan**

To apply for a Direct PLUS Loan, you, the parent borrower, must complete the Borrower Section of the Master Promissory Note, and your dependent student must complete the Student Section. It's important to understand the terms of the Direct PLUS Loan and your responsibility for repaying the loan.

## **The PLUS Master Promissory Note (MPN)**

- is a binding legal agreement you sign to indicate your commitment to repay your Direct PLUS Loan;
- may be used for multiple loans for up to 10 years if the school your student attends uses the multi-year feature;
- is for loans only for the dependent identified; and
- contains your rights and responsibilities.

You are required to sign a new MPN if the school does not use the multi-year feature or if you switch from the Federal Family Education Loan Program to the Direct Loan Program. If you have an endorser (someone who agrees to pay the loan if you don't) on your loan, you may be required to complete a new MPN.

If your child transfers to a school that uses the multi-year feature, you generally are not required to sign a new MPN. If you prefer to sign a new MPN each time you borrow, you may do so.

The multi-year feature of the MPN ends after the first to occur of the following dates:

- The date the Direct Loan Program receives your written notice that no further loans may be disbursed under the note;
- 12 months after the date you sign the MPN if there have been no disbursements during this 12 month period; or
- 10 years from the date you sign the MPN.

Your loan holder ([mappingyourfuture.org/paying/locatingloans.cfm](http://mappingyourfuture.org/paying/locatingloans.cfm)) also may revoke the MPN in situations such as bankruptcy.

## **Credit history**

During the loan application process, the Direct Loan Program will perform a credit check to determine if you have an adverse credit history. If you do, you may be able to obtain an endorser who does not have an adverse credit history.

## **Interest rates**

- Loans first disbursed between July 1, 2015 and June 30, 2016 have a fixed interest rate of 6.84 percent.
- Loans first disbursed between July 1, 2014 and June 30, 2015 have a fixed interest rate of 7.21 percent.
- Loans first disbursed between July 1, 2013 and June 30, 2014 have a fixed interest rate of 6.4 percent.
- Loans first disbursed on or after July 1, 2006 have a fixed interest rate of 7.9 percent for Direct PLUS Loans and 8.5 percent for Federal PLUS Loans.

- Loans first disbursed between July 1, 1998 and June 30, 2006 have a variable interest rate with a cap of 9 percent. The interest rate is adjusted each year on July 1 (your loan holder will notify you of interest rates changes annually). Contact your loan holder to determine the interest rate.
- If you have a loan first disbursed prior to July 1, 1998, contact your loan holder to determine the interest rate.

## **Loan limits**

The annual maximum that may be borrowed under this program is the difference between the cost of education minus any financial aid received. There is no aggregate maximum.

## **Loan programs**

Important note about Federal PLUS Loans and the Federal Family Education Loan Program: Beginning July 1, 2010, the loan types are Direct PLUS Loans available through the William D. Ford Federal Direct Loan Program. The U.S. Government makes these loans directly through schools.

If you borrowed prior to July 1, 2010, you may have a Federal PLUS Loan from the Federal Family Education Loan (FFEL) Program. (Under the FFEL Program, private lenders such as banks, credit unions, and savings and loan associations made the loans.) Although the FFEL Program and Federal PLUS Loans no longer are available, existing loans remain active.

## **Fast loan facts**

- Every school awards financial aid differently. The school may notify you of the PLUS Loan amount you are eligible to borrow, or you may need to request information from the school's financial aid office.
- You may decline a loan or request a lower amount by contacting the Direct Loan Program or the school.
- You should apply only for what you will need to pay your student's educational expenses each year.
- You must sign a separate Direct PLUS Loan MPN for each student.
- The school may require that you confirm the loan package or each loan disbursement.

## **Understanding Direct PLUS Loan borrowing for parents**

**You must repay Direct PLUS Loans, even if the student:**

- does not complete his or her education;
- is not employed upon completion of his or her studies; or
- feels that the education he or she received did not meet expectations.

Generally, federal student loans may not be cancelled or discharged due to bankruptcy.

### **Always borrow conservatively!**

- To best understand the amount you may need to borrow, compare the actual, out-of-pocket costs for your student's academic year against other sources of financial aid, such as scholarships and grants, as well as other resources that may be available to you.
- The school may award a Direct PLUS Loan up to your student's cost of education minus any other financial aid, including scholarships. This is the **MAXIMUM** amount you may borrow.
  - Only borrow what you need.
  - You can apply for another Direct PLUS Loan during the academic year if you discover you need more funding, as long as you don't exceed the cost of education, less other financial aid.
- You may reduce or cancel your loan at any time before the loan is disbursed.
- The Direct Loan Program disburses the Direct PLUS Loan funds to the school (unless your child is at a foreign school).
- The Direct Loan Program will send you a Notice of Disclosure, detailing the loan amount and interest rate, estimates the amount of interest that may be charged, and estimates monthly loan payments.
- You would normally be required to start repaying your loan effective the date the loan is fully disbursed, with the first payment due no more than 60 days later. However, for loans first disbursed on or after July 1, 2008, you can request to defer repayment during the time you or your child are enrolled at least half time and up to six months after you or your child graduate, withdraw, or drop below half-time enrollment. **Interest continues to accrue on the loan even during a deferment.**

### **Satisfactory academic progress**

The student must meet satisfactory academic progress standards set by the school in order to receive federal student aid!

### **Withdrawals and refunds**

- The law specifies the amount of financial assistance the student earns each academic year and how the school determines eligibility.
- If your student withdraws, the school uses a specific formula to calculate how much aid he or she has earned to that point.
  - If your student received less aid than the amount earned under the formula, he or she is able to receive those additional funds.
  - If your student received more aid than he or she was entitled to, the excess funds must be returned to the Direct Loan Program.

If your student stops attending school before the end of a loan period, the school may be required to refund all or part of the student's financial aid. Please contact the school for its published refund policy.

## **Loan servicers and sales**

Frequently, the Direct Loan Program contracts with loan servicers to maintain loan records and files. Your servicer is responsible for processing payments or deferments, among other duties.

## **Repayment of Direct PLUS Loans/Federal PLUS Loans for parents**

- You would normally be required to start repaying your loan effective the date the loan is fully disbursed, with the first payment due no more than 60 days later. However, for loans first disbursed on or after July 1, 2008, you can request to defer repayment during the time you or your child are enrolled at least half time and up to six months after you or your child graduate, withdraw, or drop below half-time enrollment. **Interest continues to accrue on the loan even during a deferment.**
- The maximum repayment period is 10 years.
- Payments are expected each month.
- The minimum monthly payment is \$50, but this amount may be higher depending on your loan balance.
- You may prepay your loan at any time without penalty. Prepayment may substantially reduce the amount of interest you pay.

## **Payment plans**

- **Standard:**
  - Minimum monthly payment is \$50, but may be higher depending on balance
  - Maximum repayment period of 10 years
- **Graduated:**
  - Begins with lower payment amounts that increase over time
  - Payment cannot be lower than your monthly interest amount
  - Maximum repayment period of 10 years
  - More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
- **Income-contingent for Direct PLUS Loans:**
  - An adjusted payment amount based on gross income and family size
  - Eligibility and payment amount adjusted annually
  - More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
  - If you do not repay your loan after 25 years, the unpaid portion will be forgiven (you may have to pay income tax on any amount forgiven).
- **Income-sensitive for Federal PLUS Loans:**

- An adjusted payment amount based on gross income
- Payment cannot be lower than your monthly interest amount
- Eligibility and payment amount will be adjusted annually
- Up to a 10-year repayment period
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
- **Extended:**
  - Extended repayment is available to borrowers who had no outstanding balance on Stafford or Grad PLUS Loans on October 7, 1998 and have more than \$30,000 in outstanding FFELP loans or Direct Loans (the combined total from both programs is not taken into account). Payment amounts can be either fixed annually or graduated
  - Maximum repayment term is 25 years
  - More interest may accrue over the life of the loan because the principal balance decreases at a slower rate.

## Reminder

You cannot transfer your PLUS Loan to your child. While some parents and students may agree between themselves that the student will be responsible for making payments on the PLUS Loan, the debt obligation legally remains with the parent.

## Consolidation

By the time your student completes his or her education, you may have borrowed several PLUS Loans. A Direct Consolidation Loan allows you to make single, possibly lower, monthly payments. Learn more about consolidation and determine if it's the right choice for you at [mappingyourfuture.org/paying/consolidation/](http://mappingyourfuture.org/paying/consolidation/).

## Solutions for repayment problems for Direct PLUS Loans / Federal PLUS Loans for parents

If you experience financial difficulty, your loan holder offers options that may temporarily reduce or suspend your monthly payments. Don't wait! Contact your loan holder immediately to check on a possible deferment or forbearance. **However, continue making your payments until you receive written notification that deferment or forbearance is granted.**

A deferment is a period of time during which your loan holder suspends your regular payments. See [mappingyourfuture.org/money/deferments.cfm](http://mappingyourfuture.org/money/deferments.cfm) for more information about deferment.

- You are responsible for payment of the interest that accrues during the deferment period.

- Your loan holder must determine your eligibility for any of these deferments.
- In most cases, to apply for a deferment, you must complete the appropriate form with all required documentation and return it promptly to your loan holder.

Forbearance is a period of time during which your loan holder temporarily reduces or suspends your regular payments. See [mappingyourfuture.org/paying/forbearance.cfm](http://mappingyourfuture.org/paying/forbearance.cfm) for more information about forbearance.

- You may request forbearance if you are willing but unable to make your full payment.
- You are responsible for payment of the interest that accrues during the forbearance period.
  - You may pay the interest as it accrues or allow it to capitalize.
  - Capitalized interest is added to the principal balance and may result in a higher monthly payment upon conclusion of the forbearance period.

Mandatory forbearance conditions do exist and are explained in the Master Promissory Note.

If you die or the student for whom you borrowed the loan dies, your PLUS Loan obligation is cancelled. Your loan also may be cancelled in other situations. Learn more at [mappingyourfuture.org/paying/forgiveness.cfm](http://mappingyourfuture.org/paying/forgiveness.cfm). Generally, however, federal student loans are not cancelled or discharged due to bankruptcy.

## **Delinquency and default for Direct PLUS Loans / Federal PLUS Loans for parents**

Notify your loan holder immediately if you anticipate difficulty making a payment!

- Failure to pay all or part of an installment payment when due can result in late charges. Your loan holder also has the option, in some cases, to file a lawsuit against you or garnish your wages.
- This is a loan in your name, not your student's. Even if you have made an agreement with your student that he or she will make the loan payments, that agreement does not affect your legal responsibility to your loan holder, and you ultimately remain responsible for repayment of the loan. Any negative consequences that occur from a default affect you and your credit.

If you fail to make payment on time, your loan is delinquent. If you don't make payments for 270 days, your loan is then considered to be in **default**. Defaulting on your PLUS Loan can result in serious consequences. Learn more about the consequences at [mappingyourfuture.org/paying/loandefault.cfm](http://mappingyourfuture.org/paying/loandefault.cfm).

There are three basic guidelines to follow to **avoid delinquency and default**:

- Inform your loan holder of changes in your name, mailing address, telephone, or Social Security number so that all correspondence is promptly directed to you.
- Read and keep all documents you receive pertaining to your PLUS Loan, and be sure to understand your loan amount and the payments that are required.
- If you're experiencing financial hardship and are unable to make your payments, call your loan holder for information regarding possible temporary postponement or reduction of payments through a deferment or forbearance. Get more details about your options if you have problems repaying PLUS Loans.

If your PLUS Loan already is in default, you have options. Learn more at [mappingyourfuture.org/paying/optionsafterdefault.cfm](http://mappingyourfuture.org/paying/optionsafterdefault.cfm).

## **Alternatives to Direct PLUS Loans for parents**

As a parent, you may wonder if borrowing for your student's education is best done through Direct PLUS Loans, or if you should pursue other avenues. The following are just some of the differences you'll find between private industry loans and Direct PLUS Loans.

### **Home equity or private/personal loans**

- Collateral typically is required
- Eligibility most likely is based on a full credit check
- Interest rate typically is fixed and/or higher than that of a Direct PLUS Loan
- Closing costs may be high
- Tax deduction benefits may be available on home equity loans, but generally are not on private/personal loans
- Little or no options for payment postponement (such as deferment or forbearance) if you have problems repaying

### **Alternative/private student loans**

Some students are opting to borrow alternative/private student loans ([mappingyourfuture.org/paying/private.cfm](http://mappingyourfuture.org/paying/private.cfm)) instead of asking their parents to borrow Direct PLUS Loans. Students can use alternative/private student loans to cover the remaining cost of education after receiving all other forms of available financial aid.

The characteristics of these loans are usually very different from Direct Student Loans:

- Loans are credit-based, and a student may not have enough credit of his or her own, requiring him or her to have a co-signer
- Interest rate typically is based on the student's credit rating, so it may be high
- Origination fees may vary, but typically are higher than those of federal student loans
- Most have flexible repayment plans; however, postponement options are limited
- Some, but not all, alternative loans offer grace periods



- No interest subsidy is available on any of the alternative loans, so the student is responsible for repaying all interest, including interest that accrues while he or she is attending school
- Can't consolidate these loans into a Direct Consolidation Loan