

# Comparing Direct PLUS and Private Loans

## A Comparison of Direct PLUS and Private Loans

|   | Direct PLUS  | Private  |
|---|--|--|
| Who is eligible?                        | Direct PLUS loans are available for graduate students and the parents of undergraduates.   | Private loans are available for undergraduate and graduate students.   |
| How much can I borrow?                  | Borrow up to the cost of attendance minus any other financial aid you are awarded.   | In most cases, lenders will allow you to borrow up to the cost of attendance minus other financial aid.  |
| What are the interest rates?            | The interest rate for Direct PLUS loans is fixed at 7.21%.   | Private loan interest rates vary widely, depending on the lender. Rates are typically based on your credit score, a co-signer's credit score and other factors.<br><br>While some private loans have fixed rates, others may have variable interest rates, meaning that they can change over time, based on changes in financial indices.  |
| Will I need to pay any fees?            | Direct PLUS loans have a 4.288% origination and default fee.<br><br>This fee is deducted from the amount that you borrow, meaning the actual loan amount you receive is slightly less than the requested amount.   | There are no standard fees for private loans, but some lenders charge some kind of up-front fee. These fees may depend on your credit history/score, or that of your co-signer.  |
| When do I begin repaying the loan?      | First payment is usually due within 60 days of full disbursement of the loan. There is no grace period; interest begins to accrue once the first disbursement has been made.<br><br>However, for Direct PLUS loans disbursed on or after 7/1/2008, a borrower may request to defer payments while the student is in school, plus receive a six-month grace period (interest will still accrue during this period). | Varies according to lender.<br><br>Some may begin repayment soon after disbursement; others may offer an in-school deferment with a grace period.<br><br>Interest begins accruing at disbursement.   |
| How long do I have to pay off the loan? | Direct PLUS loans come with a 10-year repayment term but can be extended to 25 years if your federal debt is over \$30,000.  | Repayment terms vary by lender. Typically they come with 10–15 year repayment terms.   |
| How do I apply?                         | First, you must complete the FAFSA at <a href="http://fafsa.ed.gov">fafsa.ed.gov</a> . Your school's financial aid office will provide instruction about their process for requesting a Direct PLUS loan.  | Contact your lender directly to apply. Private loan applications often require a co-signer. If a co-signer is required, choose a credit-worthy person (such as a parent or other relative) to bolster your application and possibly reduce your interest rate. By co-signing your loan, this person agrees to take full responsibility for the loan if you're unable to pay it back. |
| How do I choose a lender?               | Direct PLUS loans are available through the Department of Education's Direct Loan program.   | Evaluate the loan terms of at least two lenders. Use the questions on the next page to help you compare your options.  |
| Additional Benefits                     | <ul style="list-style-type: none"> <li>• Loan discharge and cancellation in the event of borrower's disability or death</li> <li>• Various repayment plans</li> <li>• Unemployment deferment</li> <li>• Economic hardship deferment</li> <li>• Sixty months of forbearance</li> <li>• Eligible for federal loan consolidation</li> </ul>   | Varies according to the lender. Some offer postponement options, such as forbearance, death benefits, various repayment options and incentive/repayment benefits.  |

# How to Compare Private Loans and Lenders

Think of your private loans as a long-term relationship: you're committing to a repayment term that could last 10 years to 15 years. That's why it pays to do your homework and choose wisely.

You can choose any lender you want as long as you're getting the best rates and repayment terms. Use these questions to help you compare lenders and options.

| Private Loan Questions   | Lender A: _____ | Lender B: _____ |
|--|-----------------|-----------------|
| What are the credit criteria?  |                 |                 |
| Is a co-signer required? If so, is there an option to release the co-signer at a later date? |                 |                 |
| How is the interest rate determined?   |                 |                 |
| Is the interest rate fixed or variable?  |                 |                 |
| What is the best and worst case pricing?<br>(e.g. LIBOR + 1, LIBOR + 8)                      |                 |                 |
| What kind of fees do you charge?<br>At disbursement and during repayment?                    |                 |                 |
| Are the fees added to the amount borrowed or deducted?                                       |                 |                 |
| How often do you capitalize interest?  |                 |                 |
| What is the repayment term length?   |                 |                 |
| When do I have to start making payments?   |                 |                 |
| If I die or become permanently disabled, does my loan still have to be repaid? By whom?      |                 |                 |
| What options do I have to postpone payments?   |                 |                 |
| Do you offer repayment benefits and what are they?   |                 |                 |