



Alternative Loans: Evaluating PLUS and Private Loan Options

Patricia M. Scherschel



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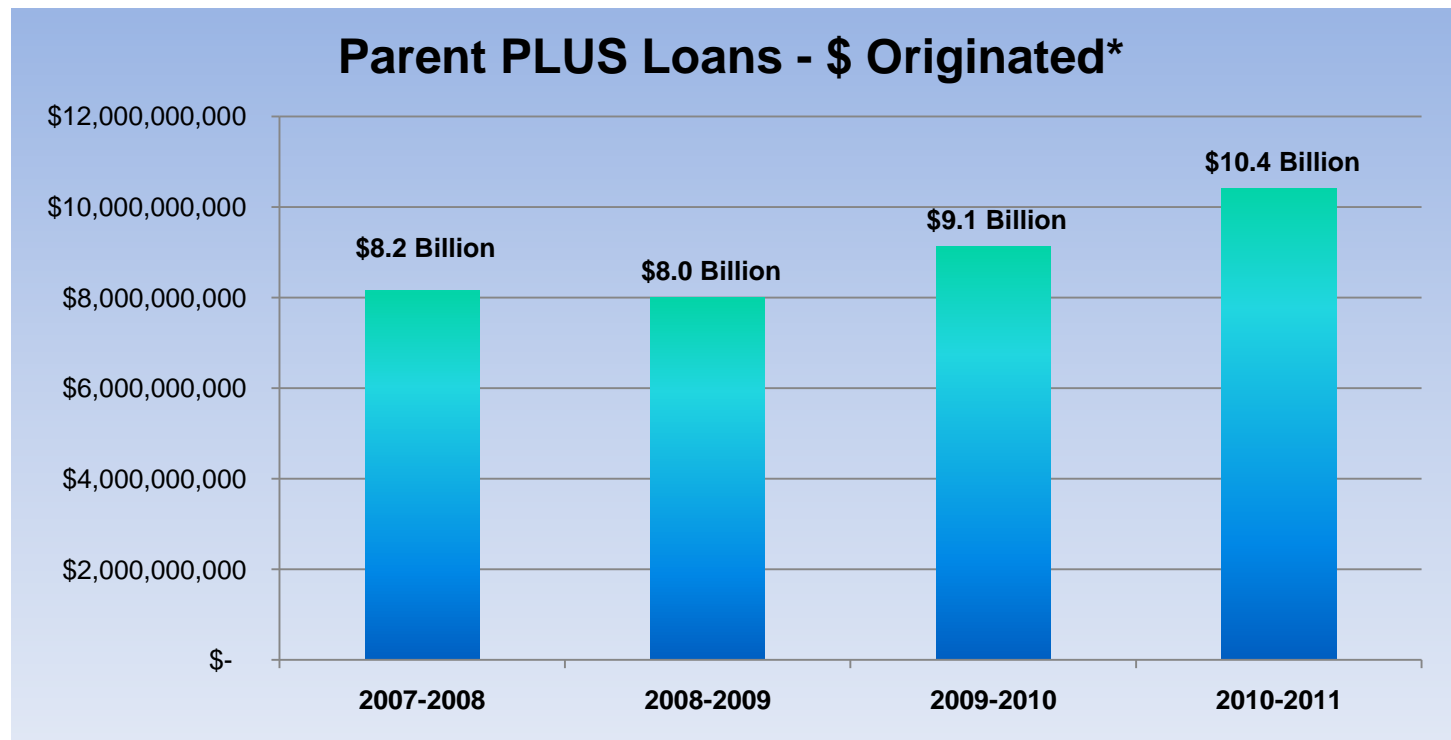


Parent PLUS Volume Trends



Total Parent PLUS Borrowing

- Volume is up 28% since 2007-2008.



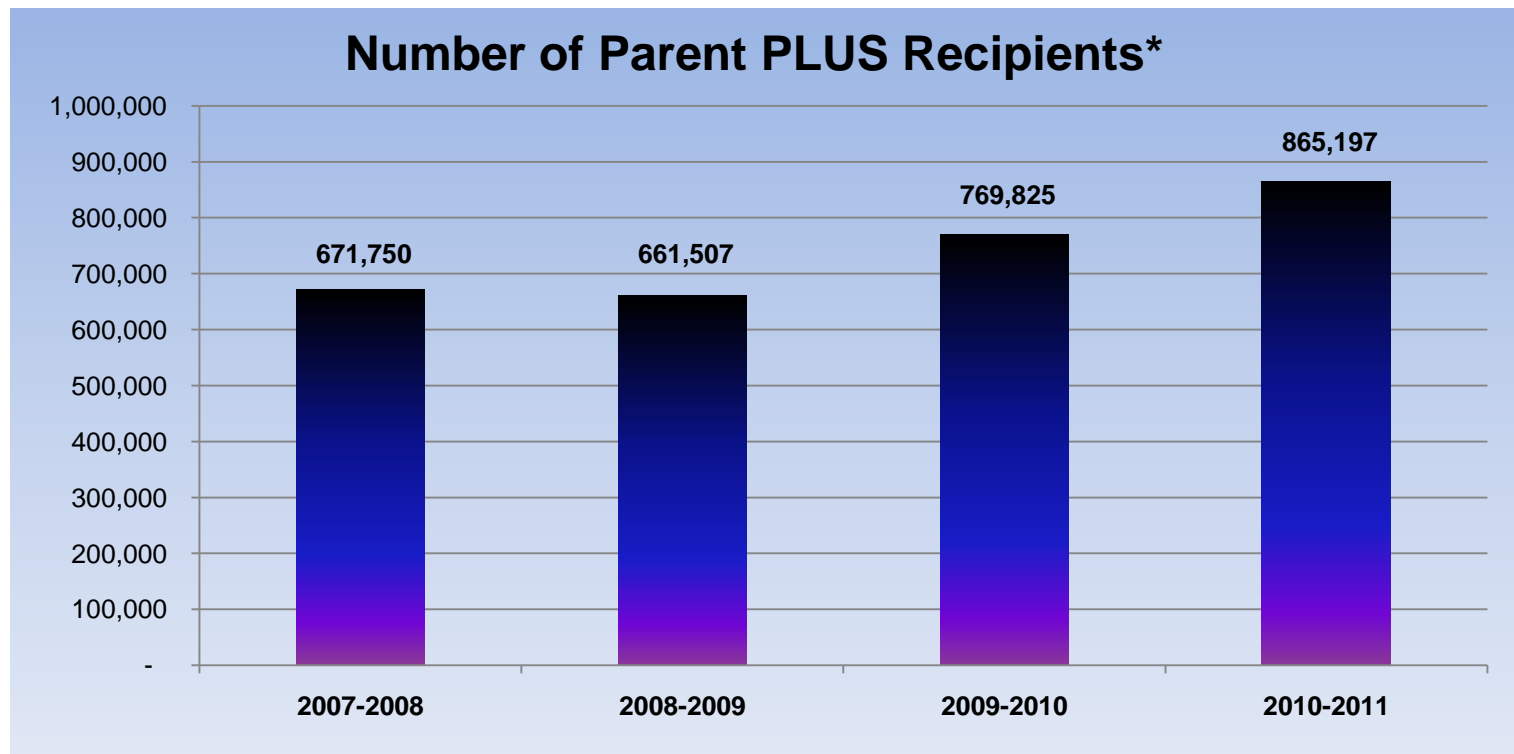
* Data are for financial award year.

Source: U.S. Department of Education.



Total Number of Parent PLUS Recipients

- Number of student beneficiaries is up 29%.



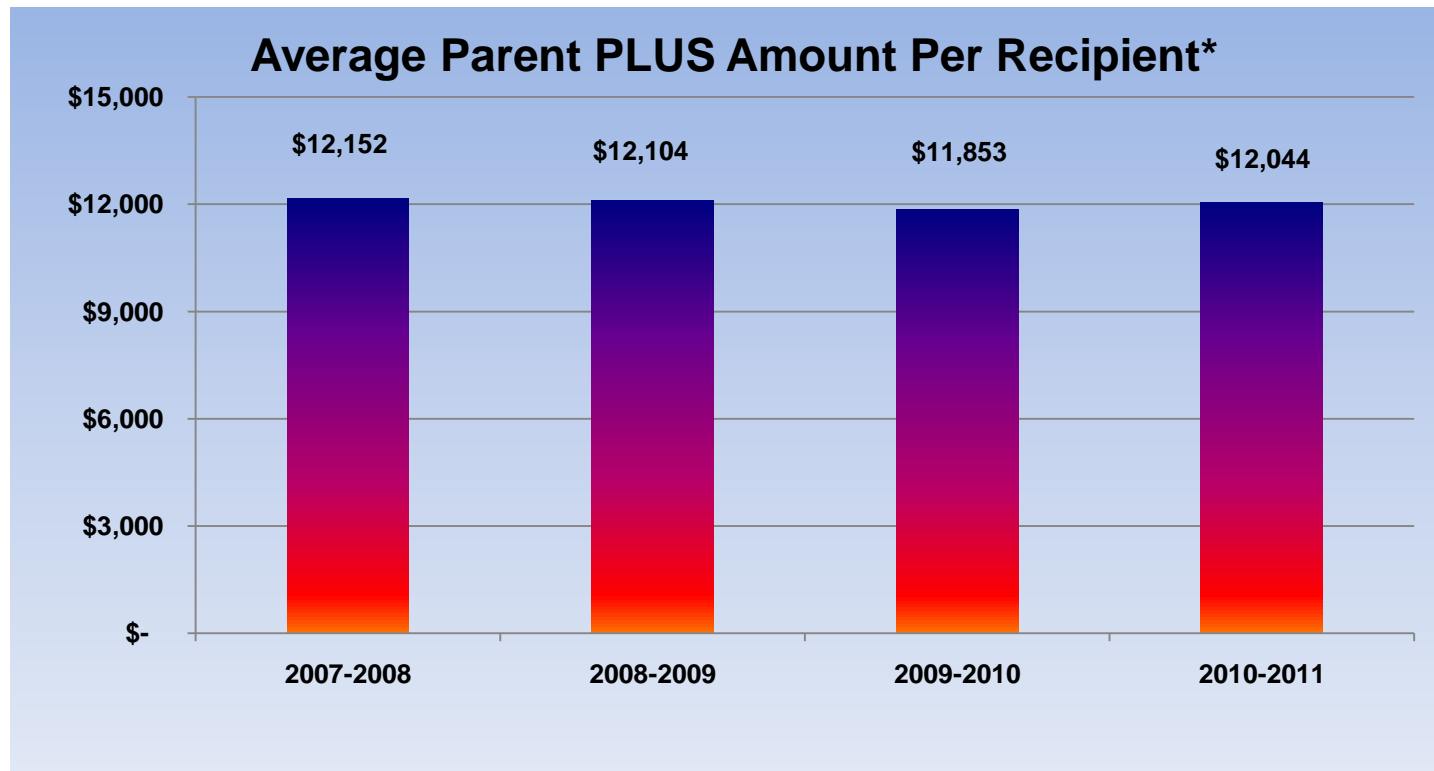
* Data are for financial award year.

Source: U.S. Department of Education.



Average \$ Amount

- Average amount borrowed is down slightly.



* Data are for financial award year.

Source: U.S. Department of Education.



Parent PLUS Volume Activity in MASFAA Region

- Parent PLUS Origination Volume
By Institution Type – 2010-2011*

Institution Type	Number of Schools	\$ of Loans Originated	Number of Recipients	Average Balance
All	1,199	\$2,471,192,113	227,140	\$10,880
Public	370	\$1,324,815,344	126,784	\$10,449
Private	412	\$852,064,351	68,351	\$12,466
Proprietary	417	\$294,312,418	32,005	\$9,196

* Data are for financial award year.

Source: U.S. Department of Education.

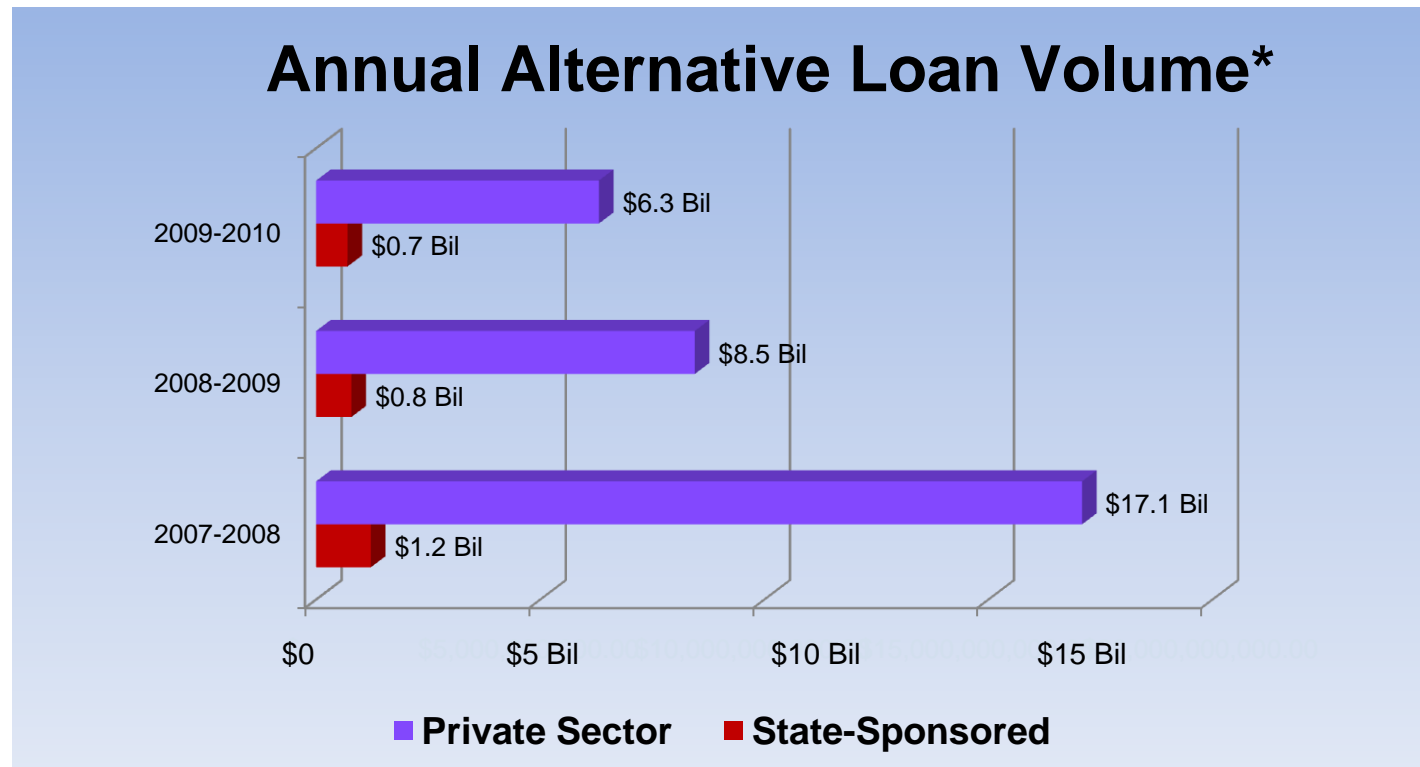


Alternative Loan Volume Trends



Alternative Loan Volume

- Total volume contracted by 62% between 2007-2008 and 2009-2010.



*Data are for financial aid award year.

Source: The College Board.



Observations

- Contraction in private credit may reflect a combination of all or some of the following factors:
 - Increased Stafford loan limits.
 - Increased use of Graduate PLUS loans.
 - Tightening of credit qualification rules by private lenders.
 - Decrease in demand as families find ways to reduce need for debt.
 - Family decision to use other resources to fund college bills.
 - Less expensive education options.
 - Continuing shift in responsibility for college from parent to child.
 - Change in Parent PLUS rules that make it easier to defer payment while child is in school.



Observations

- Private lenders are offering better terms than those available a few years ago.
- Variable rates are dipping below 3%.
- Lenders have begun to offer fixed-rate loans.
- Lenders are introducing enhanced product features.
- State-sponsored programs offer attractive (fixed) rates, but funding is limited, and borrowers must meet state-related eligibility rules.



Comparing Key Terms



Basics

Availability	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Eligible Schools	Schools eligible for Direct Loan Program.	Varies. Often restricted to traditional/non-profit four-year schools.	Varies
Eligible Borrowers	Parents of dependent undergraduate students enrolled at least half-time.	Varies. Typically available to undergraduate and graduate students. Some lenders will lend to students attending less than half-time. At least one major private lender offers loans to parents of undergraduate and graduate students.	Varies. Often available to state residents attending in-state or out-of-state schools and to out-of-state students attending in-state schools. Some programs will lend to parents as well as to students.
FAFSA Required?	Yes	No	Varies
Minimum Balance Requirement	None	Varies	Varies
Maximum Balance Limit	Full cost of attendance minus other aid received.	Varies	Varies
Aggregate Limit	None	Varies	Varies



Credit Check Rules

Credit Requirements	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Credit Check	Yes	Yes	Yes
Credit History	Yes. Parent cannot be more than 89 days late on loan payments and must satisfy several other requirements.	Yes. Credit history requirements vary, but likely to be more stringent than Parent PLUS rules.	Yes
Minimum Credit Score (e.g., FICO Score)	None -- Credit check does not look at credit score.	Varies	Varies
Income Requirement	No	Varies	Varies
Debt-to-Income Ratio?	No	Varies	Varies



Co-Signer Option

Co-Signer Option	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Co-Signer Option	Yes. Parent who fails credit history check can apply with endorser who meets credit requirements. Endorser cannot be the student beneficiary.	Yes. Student or parent who fails credit review can apply with a co-signer who meets credit requirements. Parent can co-sign child's private loan application.	Co-signer requirements vary.
Co-Signer Release	No	Varies, but most major lenders offer co-signer release to borrowers who meet qualification rules.	



Rates & Fees

Rates & Fees	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Interest Rate	Fixed at 7.9%	Varies. Currently advertised variable rates range from 2.25% to more than 12%, depending on lender. A few lenders are now offering fixed-rate loans that can be competitive with Parent PLUS rate.	Most state-sponsored programs offer low, fixed rates.
Rate Limit	N/A	Varies, may be governed by state usury limit, if applicable.	---
Fees	4%, subtracted from loan amount. Direct Loan Program has been rebating 1.5% at time of loan origination; borrower loses benefit if he/she fails to make first 12 payment on time. The rebate benefit is scheduled to be eliminated as of July 1, 2012.	Varies. However, most major private lenders have eliminated fees. When fees are assessed, general practice is to add them to the loan balance.	Varies



More on Rates & Fees

- PLUS rate/fee structure is one-size-fits-all.
- Rates & fees for alternative loans can vary by:
 - Type of Institution: Traditional 4-Year vs. Community College vs. For-Profit.
 - Program level: Undergrad vs. Graduate vs. Professional.
 - Presence (or lack) of co-signer.
 - And, of course, lender's evaluation of borrower's or co-signer's credit.



How Do You Compare Costs?

- Read the new private loan disclosure statements.
- Compare APRs.
- Compare payment schedules.



How Do You Compare Costs?

- Comparing a variable-rate loan to a fixed-rate loan isn't easy, but consider the table below . . .

	Parent PLUS Loan	Alternative Variable-Rate Loan #1	Alternative Variable-Rate Loan #2	Alternative Variable-Rate Loan #3
Amount Borrowed:	\$12,000	\$12,000	\$12,000	\$12,000
Fee:	4%	0%	0%	0%
Net Proceeds:	\$11,520	\$12,000	\$12,000	\$12,000
Initial Interest Rate:	7.90%	3.25%	3.25%	3.25%
Average Rate During School:	7.90%	4.00%	4.00%	4.00%
Monthly Interest During In-School Period:	\$79	\$40	\$40	\$40
Number of Months In Deferral:	51	51	51	51
Capitalized Interest:	\$4,029	\$2,040	\$2,040	\$2,040
Balance at Start of Repayment:	\$16,029	\$14,040	\$14,040	\$14,040
Average Rate During Repayment:	7.9%	4.5%	6.0%	9.0%
Repayment Term:	10 Years	15 Years	10 Years	10 Years
Monthly Payment:	\$194	\$107	\$156	\$178
Total Payments:	\$23,236	\$19,333	\$18,705	\$21,342

Calculations have been simplified for illustration purposes.



How Do You Compare Costs?

- Comparing fixed-rate loans is a bit more straightforward . . .

	Parent PLUS	Alternative Fixed-Rate Loan #1	Alternative Fixed-Rate Loan #2	Alternative Fixed-Rate Loan #3
Amount Borrowed:	\$12,000	\$12,000	\$12,000	\$12,000
Fee:	4%	0%	0%	2%
Net Proceeds:	\$11,520	\$12,000	\$12,000	\$12,240
Initial Interest Rate:	7.90%	8.00%	8.00%	8.00%
Average Rate During School:	7.90%	8.00%	8.00%	8.00%
Monthly Interest During In-School Period:	\$79.00	\$80.00	\$80.00	\$80.00
Number of Months In Deferral:	51	51	51	51
Capitalized Interest:	\$4,029	\$4,080	\$4,080	\$4,080
Balance at Start of Repayment:	\$16,029	\$16,080	\$16,080	\$16,320
Average Rate During Repayment:	7.90%	8.00%	8.00%	8.00%
Repayment Term:	10 Years	15 Years	10 Years	10 Years
Monthly Payment:	\$194	\$154	\$195	\$198
Total Payments:	\$23,236	\$27,660	\$23,411	\$23,761

Calculations have been simplified for illustration purposes.



Repayment Options

Repayment Options	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
In-School Deferral	Yes, available upon request. Extends 6 months after student leaves school or drops below half-time enrollment.	Availability varies by lender. Most major providers offer in-school deferment and a post-school deferment.	Availability varies by program. In-school deferment is typically available, although some programs require interest payments.
Repayment Term	10 years for unconsolidated Parent PLUS loans, up to 30 years for Federal Consolidation Loan.	Varies by lender. Typical term is 15 years.	Varies by program.
Reduced Payment Option	Yes. Graduated repayment plan establishes initial payments as low as the accruing monthly interest, with step-ups scheduled every other year. Extended (25-year) term for balances greater than \$30,000.	---	---
Income-Based Repayment Option	No	---	---



Deferment/Forbearance

Deferment and Forbearance	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Deferment	Yes. Deferment of principal and interest payments is available for Parent PLUS borrowers who enroll in college (at least half-time), become unemployed, experience economic hardship, or are deployed by the military. In addition, parents can elect to defer payments while their students are in school and for six months after the students drop below half-time enrollment.	Varies, but limited.	Varies, but limited.
Forbearance	Yes. Forbearance can be granted for a number of reasons, including financial hardship. Available in increments of up to 12 months.	Varies, but limited.	Varies, but limited.



Cancellation/Forgiveness

Loan Cancellation & Forgiveness	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Loan Cancellation in Event of Death or Permanent Disability	Yes. Discharge occurs in event of death or total and permanent disability of parent borrower or death of student beneficiary.	Varies. Private lenders have begun to offer a death/disability discharge.	---
Public Service Loan Forgiveness	Yes, but few parents can expect to receive any forgiveness benefit, because Parent PLUS loans are not eligible for repayment under Income-Based repayment or Income Contingent Repayment. A parent can consolidate his/her PLUS loans into a DL Consolidation Loan and enroll that loan in ICR. But ICR may not offer meaningful payment relief, and the parent--not the child--must serve in a public service role.	N/A	N/A



Borrower Benefits

Benefits	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Rate Discount for Auto Debit	Yes -- 0.25%	Yes. Varies. Typical discount is 0.25%. Some lenders offer discounts of up to 0.50%. Benefit may require use of lender's bank account.	---
Reward for On-Time Payments	Yes. 1.5% fee rebate is retained if borrowers make initial 12 monthly payments on time. This benefit will no longer be available for loans issued after June 30, 2012.	---	---
Graduation Reward	No	Offered by some private lenders. Can take form of cash back, credit to balance, or reduction in rate.	---



Other Features

Other Features	Parent PLUS	Alternative Loans	
		Private Sector	State-Sponsored
Consolidation Option	Yes. Parent PLUS loans are eligible for Direct Consolidation as soon as PLUS loans are fully disbursed.	Availability is limited.	Generally not an option.
Federal Interest Deduction	Yes, up to \$2,500 per year, depending on borrower's eligibility.	Yes, up to \$2,500 per year, depending on borrower's eligibility, provided loan proceeds are used to pay for eligible in-school expenses.	Yes, up to \$2,500 per year, depending on borrower's eligibility, provided loan proceeds are used to pay for eligible in-school expenses.
Bankruptcy Discharge*	No	No	No
Prepayment Penalty	No	No	No

*In general, student loans—public or private—are not eligible for discharge in bankruptcy.



Potential Decision Factors



Variable vs. Fixed

- What is tolerance for interest-rate risk?
 - Does family prefer constancy of fixed rate?
 - Is family keen to get lowest rate possible?
 - What is family's repayment horizon?
 - For families who plan to repay over a relatively short period (e.g., 5 years) and who can demonstrate excellent credit, private loans may offer cheaper deal, given the current interest rate environment.
 - *There are no assurances that rates will remain low.*

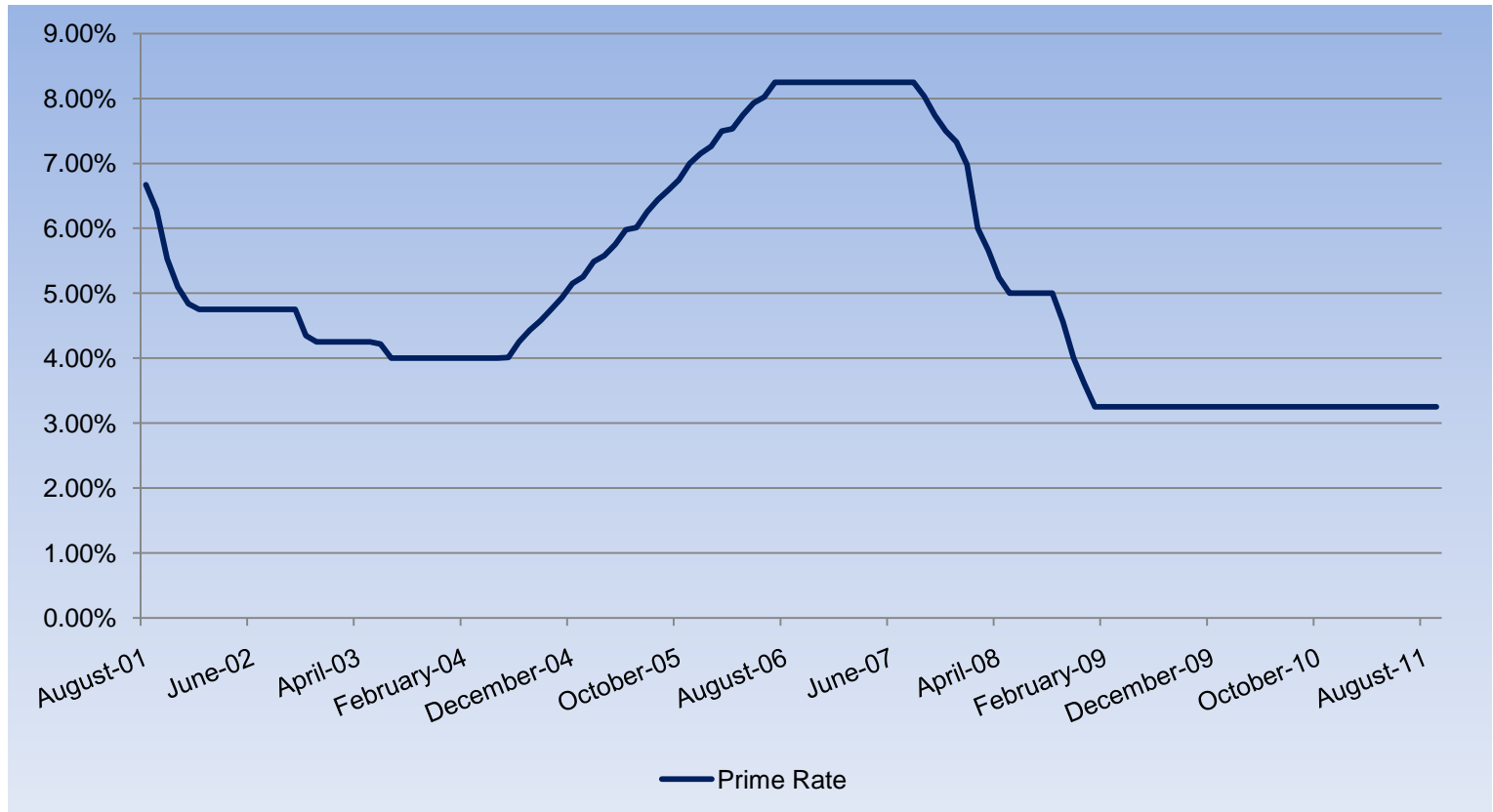


Whither Variable Rates?

- Variable-rate indices have been hovering at low levels or all-time lows for several years.
- When market rates will begin to rise--and by how much--is anyone's guess.
- Following tables provide 10-year history for 3 key indices.



Prime Rate History



Source: Federal Reserve Board.



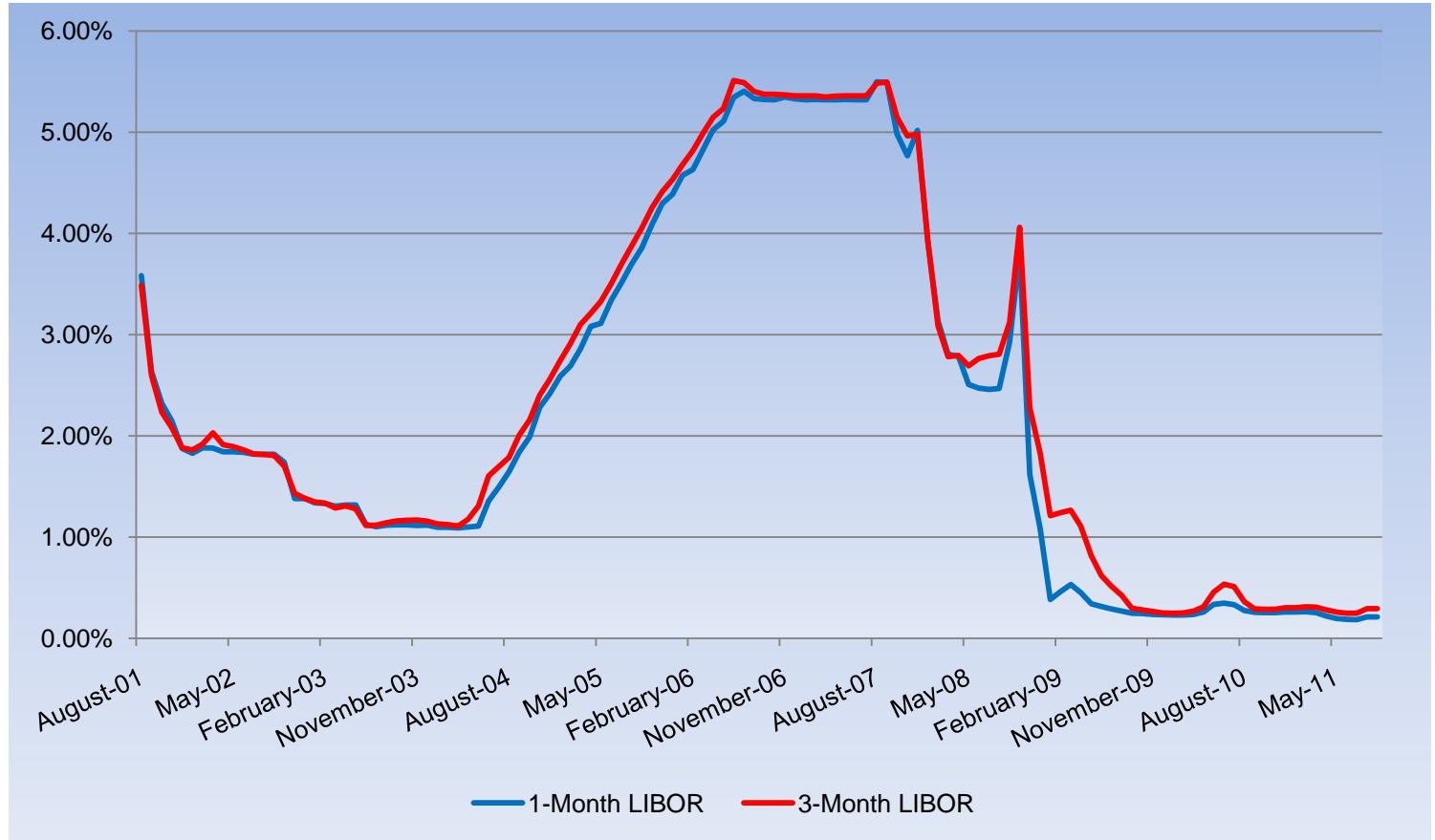
T-Bill Rate History



Source: U.S. Treasury Department.



LIBOR Rate History



Source: FedPrimeRate.com.



Ability to Absorb Debt

- Can parents afford a Parent PLUS loan?
 - Taking on education loan can stress credit rating.
 - Increasing debt-to-income ratio can hinder ability to refinance a mortgage or get a new home or a car loan.
- *PLUS Loan approval process does not mean parent/family can actually afford to carry the loan.*



Willingness to Take on Debt

- Parents may choose not to borrow, preferring child to take responsibility for the college debt burden.
 - Child is the beneficiary of the education.



Transferability

- How long are parents willing to be “on the hook”?
- Parent PLUS loans cannot be:
 - Legally transferred to student beneficiaries.
 - Endorsed by their student beneficiaries.
 - Consolidated by students into a Direct Consolidation Loan.



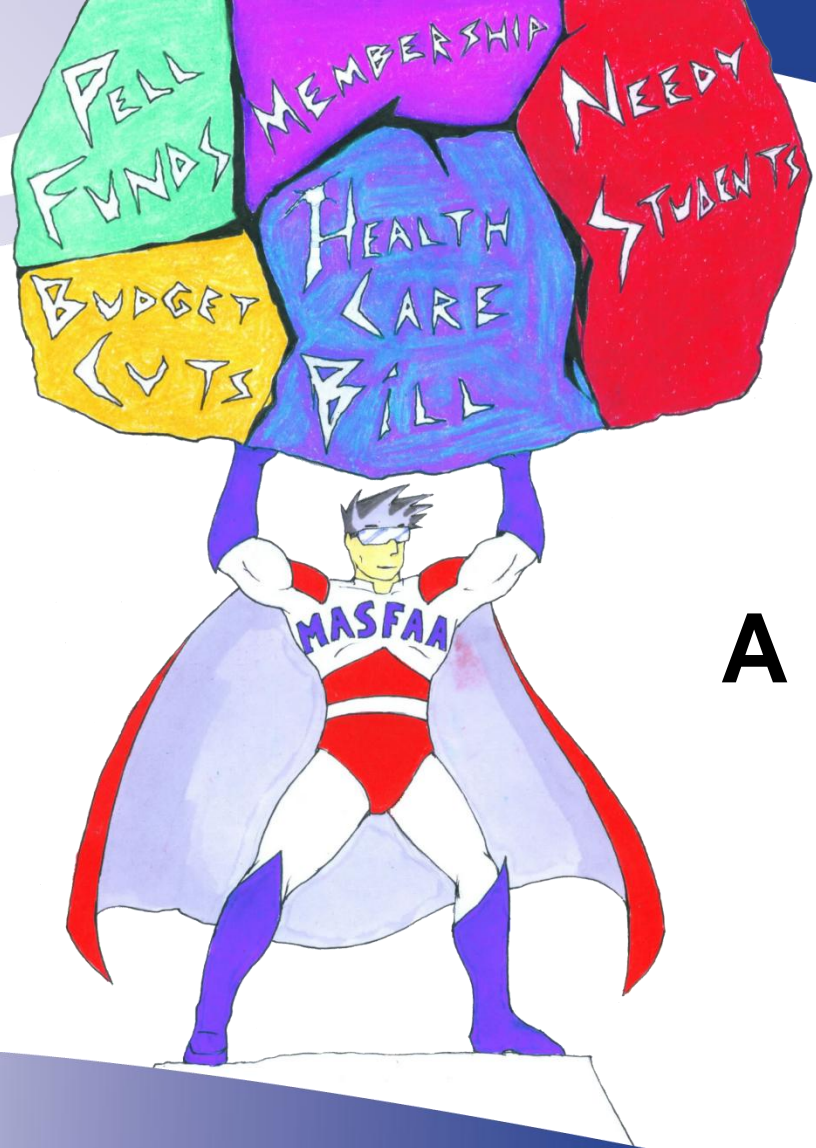
Transferability

- Many alternative loan providers allow co-signers to be released . . .
 - After borrowers establish successful payment history.
 - And if the students—the primary borrowers—meet certain credit standards.



Payment Protection Needs

- One of the key advantages of Parent PLUS loans is their robust deferment and forbearance options.
 - But will parents actually need and/or use those benefits?
- Until recently, cancellation benefits have been limited to government loan program.
 - Private lenders have begun to offer this benefit.



A Few Tips for Parents and Students . . .



Consider a Balanced Approach

- Many families will seek to balance competing needs when deciding how to finance unmet college expenses.
- Yet, this isn't necessarily an either-or decision.
- Parent and child can share the burden in a variety of ways.
 - Parents can help children with private loan payments or children can assist parents in making PLUS payments.
 - Or, to avoid legal quandaries, loan burden can be split between PLUS loan and private loans.



Co-Signers Must be Vigilant

- Parents who co-sign their children's private education loans have a vested interest in their children's payment habits.
 - Especially in the initial years of repayment.
- Parents also can/should encourage children to practice sound money management.
 - Lenders typically require students to demonstrate strong credit before releasing co-signers.
 - Take time to understand the release requirements.



Shop Around for Best Deal

- Families can apply with more than one student loan lender.
 - If applications are submitted in a narrow window—say, a couple weeks—credit bureaus will treat queries from multiple lenders as a single query.
 - A parent who qualifies as co-signer for private student loan is likely to qualify for Parent PLUS.



Questions?

- Please ask them now.
- Or ask them later.

Patricia.Scherschel@gmail.com

Cell: 317-370-7233