

PLUS Loans – it's never too late to subsidize your child's education cost

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By Vanessa McHooley

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Rising. Soaring. Skyrocketing. These are the words that seem to begin every article about college tuition costs - and they are words guaranteed to make every parent cringe. According to the College Board, costs for the 2004–2005 school year at four–year private colleges are up 6%, while costs at four–year public colleges are up 10.5%. Scary? Yes. Impossible to handle? No!

The good news is that there is more financial aid available than ever before. One of the most interesting financial aid options is the Parent Loan for Undergraduate Students, or PLUS Loan.

What is a PLUS Loan?

PLUS Loans are federal loans taken out by parents to help pay their children's college costs. PLUS Loans offer several advantages:

- Interest rates are adjusted each year, but are consistently kept low. For the 2004–2005 school year, the interest rate is 4.17%. It is capped to never exceed 9%.
- Financial need is not a determining factor in receiving a PLUS Loan.
- No collateral is required.
- There is no penalty for early repayment.
- Loans can be consolidated.
- If you are eligible, up to \$2000 in interest may be tax–deductible under the Hope Education Tax Credit.

Who is eligible for a PLUS Loan?

If you are a parent with dependent students attending college at least part–time, you are eligible to receive a PLUS Loan. You do need to have a good credit history. The following credit issues will reduce your chances of getting a PLUS Loan:

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- Bankruptcies
- Defaulted loans
- Payments overdue by 90 days or more
- High debt-to-income ratio

If you are turned down for a PLUS Loan because of poor credit history, you can find someone to co-sign the loan with you and then apply again.

How much can I borrow with a PLUS Loan?

You can borrow up to the total cost of undergraduate education expenses, minus other financial aid already received. Expenses can include tuition, room and board, supplies, lab expenses, and travel.

How do I apply for a PLUS Loan?

You can apply for a PLUS Loan through the Federal Family Education Loan (FFEL) Program or through the William D. Ford Federal Direct Loan (Direct Loan) Program. FFEL loans come from private lenders or loan servicers, such as your bank. PLUS Loan applications are available from your school or your lender. To apply for an FFEL PLUS Loan, you complete the application and then submit it to your school. The school completes its portion of the application and sends it to the lender for approval.

Direct loans come from the U.S. Department of Education's Direct Loan Servicing Center. To apply for a Direct PLUS Loan, you complete a Direct PLUS Loan application and promissory note and submit it to your school's financial aid office. This form is available from your school's Financial Aid Office.

You can take out one loan per enrollment period for each eligible student in your family.

PLUS Loans do require an application fee of up to 4% of the principal of the loan. These fees are deducted from the loan principal, so no up-front money is required. The fee includes a 3% origination fee charged by the federal government and a guarantee fee of up to 1% charged by the guarantee agency. However, most guarantors waive the guarantee fee.

How are PLUS Loan funds disbursed?

Funds are sent directly to the school's financial aid office for scheduled payments over the course of the academic year. As with other federal loans, there are usually at least two disbursements, one for each school term.

The funds are first applied to tuition, fees, room and board, and other school charges. If any money remains, you can receive it as a check or you can put it in your student's school account. This remaining money must be used for education expenses.

When do I repay PLUS Loans?

You start paying back PLUS Loans 60 days after the final disbursement of the school year. So, if the final disbursement is made in January, as is typical, repayment generally begins in late February or early March. PLUS Loans are the financial responsibility of the parents, not the student. If the student agrees to make payments on the PLUS Loan but fails to make the payments on time, the parents are

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held responsible.

What is the difference between PLUS Loans and other student loans?

The other student loan generally available to students is the Stafford Loan. The table below illustrates the similarities and differences between these two loan programs:

PLUS Loan

Federally guaranteed

Made to parents of dependent students

Interest rate is low, but not as low as a Stafford (currently 4.17%)

Repayment begins 60 days after final disbursement for the academic year

Loan borrowing can be up to 100% of college education costs

Stafford Loan

Federally guaranteed

Made to students themselves

Interest rate is lowest available (currently 3.37%)

Repayment begins six months after graduation or leaving school

Loan borrowing is capped:

- \$2,625 for first-year undergraduates
- \$3,500 for second-year undergraduates
- \$5,500 for third- and fourth-year undergraduates

Loan can be needs-based and requires a FAFSA

Interest charges do not begin until repayment begins, after graduation

This article is distributed by NextStudent. At NextStudent, we believe that getting an education is the best investment you can make, and we're dedicated to helping you pursue your education dreams by making college funding as easy as possible. We invite you to learn more about PLUS Loans at <http://www.NextStudent.com>.

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Parent Loans or Student Loans - what is going to be best for my child?

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At least 20% of college students need some type of loan to help pay for their college education. Such a statistic can lead to students graduating with an unmanageable debt load. An alternative is for parents

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to help out by taking out loans themselves. But which is the better option - student loans or parent loans? Each has distinct advantages and uses.

Federal student loans

Federal student loans have the lowest interest rates and best repayment options. If you need to take out loans and you qualify for federal loans, this is your best choice. Just be sure to accept only the funds you need, even if you are offered much more. Parents can always help their children pay off these loans once repayment begins after graduation.

Federal parent loans

PLUS Loans (Parent Loan for Undergraduate Students) are another loan option that comes with low interest rates. If you are a parent with dependent students attending college at least part-time and you have a good credit history, you are eligible to receive a PLUS Loan. These loans are not needs-based. You can borrow up to the total cost of undergraduate education expenses, minus other financial aid already received. Unlike federal student loans, payment is not deferred until after graduation; instead, your first loan payment will be due about 60 days after the loan is disbursed. Also unlike federal student loans, PLUS Loans require an application fee.

Private loans

Both students and parents can take out private loans to cover funding gaps. Terms are basically the same for these loans, although students may be able to have their repayment deferred until after graduation. Another consideration is that students may wish to take out small loans to begin to establish a credit history. You may need to cosign for private student loans.

Other options

Parents do have some additional options for college funding, such as home equity loans. These often have rates as good as private loans.

So which type of loan should I get?

This really comes down to a personal decision. Ask yourself these questions as you are trying to decide:

- What level of debt do you feel is manageable for your child to graduate with?
- How important is it to you that your child takes responsibility for paying student loans?
- Will you and your child work out a repayment plan to repay PLUS Loans and other parent loans?

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best investment you can make, and we're dedicated to helping you pursue your education dreams by making college funding as easy as possible. We invite you to learn more about Parent Loans or Student Loans at <http://www.NextStudent.com> .

My goal is to help every student succeed – education is one of the most important things a person can have, so I have made it my personal mission to help every student pay for their education. Aside from that, I am just a pretty average girl from SD.

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