



# Federal Grad PLUS vs. Private Education Loans

*Which one is right for you?*

Determining how to finance your graduate/professional school education is tough, unless you have the facts. There are many education loan options available, both federal and private, that can be useful in filling the gap between the cost of education and your financial aid package. One of the best options is a Federal Grad PLUS Loan. With high approval rates and a low, fixed interest rate, the Federal Grad PLUS Loan option gives graduate and professional students an alternative to private student loans. The chart below will help determine which option is right for you. Always research your Federal Stafford Loan eligibility before borrowing either a Grad PLUS or private loan. Regardless of which loan option you choose, you should contact your financial aid office.

	Federal Grad PLUS Loan	Private Education Loans
<b>Annual Loan Limit</b>	Cost of Attendance (COA) less other financial aid received.	COA for some education loans, while others may have limits ranging from \$20,000 not to exceed COA.
<b>Min. Loan Amount</b>	No federal minimum.	Minimum amounts vary from \$500 to \$1,500.
<b>Aggregate Limit (Lifetime limit)</b>	None	Aggregate limits vary and may range from \$65,000 to \$138,500.
<b>Fees</b>	Up to 4% origination fee.	Fees vary. Some offer zero fees but have higher interest rates, while others have fees that are generally based on the borrower's credit history ranging from 1% to 10%.
<b>Interest Rate</b>	7.9% fixed interest rate.	Most interest rates are variable rates that are adjusted monthly, quarterly, or annually. Interest rates may vary based on the borrower's credit history. They are typically based on the Prime rate or LIBOR <sup>2</sup> plus add-on points with caps that may exceed 20%.
<b>Interest Capitalization</b>	Generally, interest is capitalized (added to the loan's principal balance) at the end of a deferment or forbearance.	Interest is typically capitalized (added to the loan's principal balance) monthly, quarterly, annually, or at repayment depending on the private loan program.
<b>Enrollment</b>	At least half time.	At least half time, although some programs are available to students enrolled less than half time.
<b>Cosigner Required</b>	No. A cosigner may be obtained if the borrower doesn't meet the credit criteria.	A cosigner may not be required, but the terms of the loan may be less favorable. A cosigner may help the borrower qualify for better loan terms.

<sup>2</sup> The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market.

## Iowa College Student Aid Commission

603 E. 12th St FL 5th • Des Moines IA 50319  
 Phone: 877-272-4456 • Fax: 515-725-3401  
 Email: [info@iowacollegeaid.gov](mailto:info@iowacollegeaid.gov) • Website: [www.iowacollegeaid.gov](http://www.iowacollegeaid.gov)



Your Financial Aid Connection

	<b>Federal Grad PLUS Loan</b>	<b>Private Education Loans</b>
<b>Credit Check</b>	<p>Yes, but results are not used to determine loan terms. A lack of credit history is not considered adverse credit. An applicant is considered to have adverse credit if any of the following apply:</p> <ul style="list-style-type: none"> <li>• 90 days or more delinquent on any debt.</li> <li>• During the 5-year period before the date of the credit report there has been a default on debt, foreclosure, tax lien, repossession, wage garnishment, write-off of Title IV debt, or debt has been discharged in a bankruptcy.</li> </ul> <p><i>Note: If you have an adverse credit history, you may be able to borrow a Grad PLUS loan if you can document that extenuating circumstances exist.</i></p>	<p>Yes, for both the borrower and cosigner (when or if there is a cosigner.) More stringent credit criteria is used to determine creditworthiness. Many programs use the results of the credit check to determine the loan terms including the interest rate.</p> <p>Lack of credit often requires a cosigner on the loan, or the loan is offered with higher fees and/or interest rates. Some programs will release a cosigner from liability after a set number of consecutive on-time monthly payments and if the borrower meets credit guidelines.</p>
<b>Required Documentation In Addition to the Application</b>	<p>Yes. Students must complete Entrance Counseling prior to the delivery of the first disbursement unless they have previously borrowed a Grad PLUS Loan. Check with your college or university for details on how to fulfil the counseling requirement.</p>	<p>Yes, many programs require additional documentation to verify income and assets, such as verification of monthly mortgage or rent expense, pay-stubs, and/or copies of W2's and other tax documents.</p>
<b>Payment Start Date</b>	<p>A Grad PLUS borrower may receive deferment of repayment while enrolled at least half time and for six months thereafter. Otherwise, the first payment is due within 60 days after the Grad PLUS Loan is fully disbursed.</p>	<p>Some lenders may allow borrowers to postpone repayment. The borrower is responsible for the interest that accrues during this time.</p>
<b>Deferment and Forbearance</b>	<p>Yes, deferments are federally-guaranteed entitlements for qualified Grad PLUS borrowers who are in school at least half time and during the six-month period after they cease to be enrolled at least half time, unemployed, experiencing economic hardship, participating in a graduate fellowship or rehabilitation training program, or are subject to military mobilization.<sup>3</sup></p> <p>In most cases, forbearance is granted at the loan holder's discretion. There are exceptions for certain qualified borrowers (for example, medical and dental interns and residents).</p>	<p>Many programs allow payments to be postponed while the borrower is enrolled at least half time (some programs allow less than half-time enrollment.) However, private loan lenders are not required to offer deferments or forbearances.</p>
<b>Repayment Term</b>	<p>10 years under a standard repayment schedule. Other repayment schedules include graduated, extended (up to 25 years), income sensitive and income based.</p>	<p>Repayment terms vary from 4 to 25 years based on the program and loan amount borrowed. Many offer both a standard or graduated repayment schedule.</p>
<b>Minimum Payment Amount</b>	<p>The minimum payment amount is \$50 per month.</p>	<p>Minimum payment amounts vary by loan program and amount borrowed.</p>
<b>Loan Discharge and Forgiveness</b>	<p>Grad PLUS Loans may be discharged (forgiven) by the federal government under certain circumstances such as total and permanent disability or death.</p>	<p>No. Most lenders do not discharge loan balances for any reason. If the borrower dies, some lenders will pursue the borrower's estate to satisfy the debt.</p> <p>A cosigner, if any, may be responsible for the repayment of the loan obligation even in the event of the borrower's death.</p>
<b>Federal Consolidation</b>	<p>Grad PLUS Loans can be consolidated with the borrower's other federal loans. The interest rate cap on federal consolidation loans is 8.25% which is .25% lower than the fixed FFELP PLUS rate.</p>	<p>No. Private loans cannot be included in a federal consolidation loan. However, private loan balances may affect a maximum repayment period allowed.</p>

<sup>3</sup>Not all U.S. military personnel may qualify.

